UGI CORP /PA/
Form 10-Q
August 07, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
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)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 July 31, 2018, there were 173,861,984 shares of UGI Corporation Common Stock, without par value, outstanding.

Table of Contents

UGI CORPORATION AND SUBSIDIARIES
TABLE OF CONTENTS

Table of Contents
UGI CORPORATION AND SUBSIDIARIES

PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(Millions of dollars)

	June 30, 2018	September 30, 2017	June 30, 2017
ASSETS			
Current assets:			
Cash and cash equivalents	$506.7	$ 558.4	$604.3
Restricted cash	7.7	10.3	6.7
Accounts receivable (less allowances for doubtful accounts of $43.4, $26.9 and $33.0, respectively)	813.3	626.8	628.2
Accrued utility revenues	14.4	13.3	5.9
Inventories	253.2	278.6	216.1
Utility regulatory assets	2.2	8.3	7.8
Derivative instruments	93.7	63.1	13.3
Prepaid expenses and other current assets	117.0	138.7	85.0
Total current assets	1,808.2	1,697.5	1,567.3
Property, plant and equipment, at cost (less accumulated depreciation and amortization of $3,131.0, $3,312.9 and $3,337.5, respectively)	5,699.1	5,537.0	5,422.1
Goodwill	3,169.0	3,107.2	3,032.3
Intangible assets, net	529.8	611.7	571.2
Utility regulatory assets	357.9	360.6	391.0
Derivative instruments	23.1	9.2	3.1
Other assets	289.6	259.0	259.4
Total assets	$11,876.7	$ 11,582.2	$11,246.4
LIABILITIES AND EQUITY			
Current liabilities:			
Current maturities of long-term debt	$86.4	$ 177.5	$119.1
Short-term borrowings	299.1	366.9	163.9
Accounts payable	443.4	439.6	359.0
Derivative instruments	12.0	25.0	20.1
Other current liabilities	725.4	681.1	617.5
Total current liabilities	1,566.3	1,690.1	1,279.6
Long-term debt	4,088.6	3,994.6	4,014.6
Deferred income taxes	893.7	1,357.0	1,279.8
Deferred investment tax credits	2.7	3.0	3.0
Derivative instruments	12.3	21.8	15.6
Other noncurrent liabilities	1,085.3	774.8	812.7
Total liabilities	7,648.9	7,841.3	7,405.3
Commitments and contingencies (Note 10)			
Equity:			
UGI Corporation stockholders' equity:			
UGI Common Stock, without par value (authorized — 450,000,000 shares; issued — 174,111,691, 173,987,691 and 173,960,691 shares, respectively)	1,198.5	1,188.6	1,187.8
Retained earnings	2,637.2	2,106.7	2,151.9
Accumulated other comprehensive loss	(111.6)	(93.4)	(135.9)

Treasury stock, at cost	(12.8)	(38.6)	(27.1)
Total UGI Corporation stockholders' equity	3,711.3	3,163.3	3,176.7
Noncontrolling interests, principally in AmeriGas Partners	516.5	577.6	664.4
Total equity	4,227.8	3,740.9	3,841.1
Total liabilities and equity	$11,876.7	$ 11,582.2	$11,246.4

See accompanying notes to condensed consolidated financial statements.

Table of Contents
UGI CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)
(Millions of dollars, except per share amounts)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Revenues	$1,440.9	$1,153.5	$6,378.1	$5,006.8
Costs and expenses:				
Cost of sales (excluding depreciation shown below)	732.5	618.5	3,430.1	2,337.1
Operating and administrative expenses	496.1	449.4	1,542.4	1,409.0
Impairment of Partnership tradenames and trademarks	75.0	—	75.0	—
Depreciation	103.9	89.6	297.9	258.1
Amortization	14.9	14.5	43.4	43.4
Other operating income, net	(10.0)	(15.7)	(20.5)	(17.4)
	1,412.4	1,156.3	5,368.3	4,030.2
Operating income (loss)	28.5	(2.8)	1,009.8	976.6
Income from equity investees	1.3	0.9	3.0	3.0
Loss on extinguishments of debt	—	(4.4)	—	(59.7)
Gain (loss) on foreign currency contracts, net	25.6	(16.2)	9.8	(16.1)
Interest expense	(56.5)	(56.8)	(172.8)	(168.0)
(Loss) income before income taxes	(1.1)	(79.3)	849.8	735.8
Income tax (expense) benefit	(10.6)	17.1	(19.6)	(195.3)
Net (loss) income including noncontrolling interests	(11.7)	(62.2)	830.2	540.5
Add net loss (deduct net income) attributable to noncontrolling interests, principally in AmeriGas Partners	64.1	43.2	(135.9)	(108.9)
Net income (loss) attributable to UGI Corporation	$52.4	$(19.0)	$694.3	$431.6
Earnings (loss) per common share attributable to UGI Corporation stockholders				
Basic	$0.30	$(0.11)	$4.00	$2.49
Diluted	$0.30	$(0.11)	$3.93	$2.44
Weighted average common shares outstanding (thousands)				
Basic	173,991	173,742	173,744	173,625
Diluted	176,807	173,742	176,702	177,125
Dividends declared per common share	$0.2600	$0.2500	$0.7600	$0.7250

See accompanying notes to condensed consolidated financial statements.

Table of Contents
UGI CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
(Millions of dollars)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Net (loss) income including noncontrolling interests	$(11.7)	$(62.2)	$830.2	$540.5
Other comprehensive income (loss):				
Net gains (losses) on derivative instruments (net of tax of $(1.5), $3.4, $(0.6) and $(2.3), respectively)	3.7	(6.6)	1.7	5.2
Reclassifications of net losses (gains) on derivative instruments (net of tax of $(0.2), $(0.2), $(1.6) and $4.4, respectively)	0.2	(0.2)	2.6	(10.1)
Foreign currency adjustments	(82.0)	75.5	(23.8)	22.4
Benefit plans (net of tax of $(0.2), $0.0, $(0.5) and $(0.9), respectively)	0.6	(0.1)	1.3	1.3
Other comprehensive (loss) income	(77.5)	68.6	(18.2)	18.8
Comprehensive (loss) income including noncontrolling interests	(89.2)	6.4	812.0	559.3
Add comprehensive loss (deduct comprehensive income) attributable to noncontrolling interests, principally in AmeriGas Partners	64.1	43.2	(135.9)	(108.9)
Comprehensive (loss) income attributable to UGI Corporation	$(25.1)	$49.6	$676.1	$450.4

See accompanying notes to condensed consolidated financial statements.

Table of Contents
UGI CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(Millions of dollars)

	Nine Months Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income including noncontrolling interests	$830.2	$540.5
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	341.3	301.5
Deferred income tax (benefit) expense	(182.5)	46.9
Provision for uncollectible accounts	30.9	19.3
Change in unrealized gains and losses on derivative instruments	(54.0)	(28.9)
Impairment of Partnership tradenames and trademarks	75.0	—
Loss on extinguishments of debt	—	59.7
Other, net	2.9	37.7
Net change in:		
Accounts receivable and accrued utility revenues	(202.1)	(86.7)
Inventories	28.1	(4.4)
Utility deferred fuel and power costs, net of changes in unsettled derivatives	39.8	(12.5)
Accounts payable	(17.7)	5.1
Other current assets	(0.5)	3.1
Other current liabilities	35.4	(35.3)
Net cash provided by operating activities	926.8	846.0
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(394.2)	(471.9)
Acquisitions of businesses and assets, net of cash acquired	(190.7)	(52.8)
Decrease in restricted cash	2.5	8.9
Other, net	9.5	(15.9)
Net cash used by investing activities	(572.9)	(531.7)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends on UGI Common Stock	(131.8)	(125.6)
Distributions on AmeriGas Partners publicly held Common Units	(197.3)	(195.8)
Issuances of debt, net of issuance costs	124.4	1,307.1
Repayments of debt, including redemption premiums	(141.3)	(1,056.2)
Decrease in short-term borrowings	(32.0)	(132.6)
Receivables Facility net (repayments) borrowings	(39.0)	4.5
Issuances of UGI Common Stock	60.5	11.0
Repurchases of UGI Common Stock	(43.5)	(28.7)
Other	(2.3)	(0.8)
Net cash used by financing activities	(402.3)	(217.1)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(3.3)	4.3
Cash and cash equivalents (decrease) increase	$(51.7)	$101.5
CASH AND CASH EQUIVALENTS		
End of period	$506.7	$604.3
Beginning of period	558.4	502.8

(Decrease) increase	$(51.7)	$101.5

See accompanying notes to condensed consolidated financial statements.

Table of Contents
UGI CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(unaudited)
(Millions of dollars)

	Nine Months Ended June 30,	
	2018	2017
Common stock, without par value		
Balance, beginning of period	$1,188.6	$1,201.6
Common Stock issued in connection with employee and director plans (including losses on treasury stock transactions), net of tax withheld	(1.7)	(26.4)
Equity-based compensation expense	11.6	11.2
Gain on sale of treasury stock	—	1.4
Balance, end of period	$1,198.5	$1,187.8
Retained earnings		
Balance, beginning of period	$2,106.7	$1,840.9
Cumulative effect of change in accounting for employee share-based payments	—	5.0
Losses on treasury stock transactions in connection with employee and director plans	(32.0)	—
Net income attributable to UGI Corporation	694.3	431.6
Cash dividends on Common Stock	(131.8)	(125.6)
Balance, end of period	$2,637.2	$2,151.9
Accumulated other comprehensive income (loss)		
Balance, beginning of period	$(93.4)	$(154.7)
Net gains on derivative instruments	1.7	5.2
Reclassification of net losses (gains) on derivative instruments	2.6	(10.1)
Benefit plans	1.3	1.3
Foreign currency adjustments	(23.8)	22.4
Balance, end of period	$(111.6)	$(135.9)
Treasury stock		
Balance, beginning of period	$(38.6)	$(36.9)
Common stock issued in connection with employee and director plans, net of tax withheld	75.4	44.7
Repurchases of Common Stock	(43.5)	(28.7)
Reacquired common stock — employee and director plans	(6.1)	(6.4)
Sale of treasury stock	—	0.2
Balance, end of period	$(12.8)	$(27.1)
Total UGI Corporation stockholders' equity	$3,711.3	$3,176.7
Noncontrolling interests		
Balance, beginning of period	$577.6	$750.9
Net income attributable to noncontrolling interests, principally in AmeriGas Partners	135.9	108.9
Dividends and distributions	(197.5)	(195.8)
Other	0.5	0.4
Balance, end of period	$516.5	$664.4
Total equity	$4,227.8	$3,841.1

See accompanying notes to condensed consolidated financial statements.

Table of Contents
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 Corporation (“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 (1) are the general partner and own limited partner interests in a retail propane marketing and distribution business; (2) own and operate natural gas and electric distribution utilities; and (3) own and operate 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 liquefied petroleum gases (“LPG”) and market energy products and services. We refer to UGI and its consolidated subsidiaries collectively as “the Company,” “we” or “us.”

We conduct a domestic propane marketing and distribution business through AmeriGas Partners, L.P. (“AmeriGas Partners”). AmeriGas Partners is a publicly traded limited partnership that conducts a national propane distribution business through its principal operating subsidiary, AmeriGas Propane, L.P. (“AmeriGas OLP”). AmeriGas Partners and AmeriGas OLP are Delaware limited partnerships. UGI’s wholly owned second-tier subsidiary, AmeriGas Propane, Inc. (the “General Partner”), serves as the general partner of AmeriGas Partners and AmeriGas OLP. We refer to AmeriGas Partners and its subsidiaries together as the “Partnership” and the General Partner and its subsidiaries, including the Partnership, as “AmeriGas Propane.” At June 30, 2018, the General Partner held a 1% general partner interest and a 25.3% limited partner interest in AmeriGas Partners and held an effective 27.0% ownership interest in AmeriGas OLP. Our limited partnership interest in AmeriGas Partners comprises AmeriGas Partners Common Units (“Common Units”). The remaining 73.7% interest in AmeriGas Partners comprises Common Units held by the public. The General Partner also holds incentive distribution rights that entitle it to receive distributions from AmeriGas Partners in excess of its 1% general partner interest under certain circumstances as further described in Note 14 of the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2017 (the “Company’s 2017 Annual Report”). Incentive distributions received by the General Partner during the nine months ended June 30, 2018 and 2017 were $34.0 and $32.2, respectively.

Our wholly owned subsidiary, UGI Enterprises, LLC (“Enterprises”), through subsidiaries, conducts (1) an LPG distribution business throughout much of Europe, (2) a natural gas marketing business in France, Belgium and the United Kingdom, and (3) a natural gas and electricity marketing business in the Netherlands. These businesses are conducted principally through our subsidiaries, UGI France SAS, Flaga GmbH (“Flaga”), AvantiGas Limited, UniverGas Italia S.r.l. (“UniverGas”) and DVEP Investeringen B.V. (“DVEP”). We refer to our foreign operations collectively as “UGI International.”

UGI Energy Services, LLC (“Energy Services, LLC”), a wholly owned subsidiary of Enterprises, conducts directly and through subsidiaries energy marketing, midstream transmission, liquefied natural gas (“LNG”), storage, natural gas gathering, natural gas production, electricity generation and energy services businesses primarily in the Mid-Atlantic region of the U.S. Energy Services, LLC’s wholly owned subsidiary, UGI Development Company (“UGID”), owns all or a portion of electricity generation facilities principally located in Pennsylvania. A first-tier subsidiary of Enterprises also conducts heating, ventilation, air-conditioning, refrigeration and electrical contracting businesses in portions of eastern and central Pennsylvania (“HVAC”). Energy Services, LLC and its subsidiaries’ storage, LNG and portions of its midstream transmission operations are subject to regulation by the Federal Energy Regulatory Commission (“FERC”). We refer to the businesses of Energy Services, LLC and its subsidiaries and HVAC as “Midstream & Marketing.”

UGI Utilities, Inc. ("UGI Utilities") conducts a natural gas distribution utility business ("Gas Utility") directly and through its wholly owned subsidiaries, UGI Penn Natural Gas, Inc. ("PNG") and UGI Central Penn Gas, Inc. ("CPG"). UGI Utilities, PNG and CPG own and operate natural gas distribution utilities in eastern and central Pennsylvania and in a portion of one Maryland county. UGI Utilities also owns and operates an electric distribution utility in northeastern Pennsylvania ("Electric Utility"). UGI Utilities' natural gas distribution utility is referred to as "UGI Gas." Gas Utility is subject to regulation by the Pennsylvania Public Utility Commission ("PUC") and, with respect to a small service territory in one Maryland county, the Maryland Public Service Commission ("MD PSC"). Electric Utility is subject to regulation by the PUC. UGI Utilities is used herein as an abbreviated reference to UGI Utilities, Inc. or, collectively, UGI Utilities, Inc. and its subsidiaries.

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 U.S. Securities and Exchange Commission ("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, 2017, condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP").

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

These financial statements should be read in conjunction with the financial statements and related notes included in the Company's 2017 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.

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

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Denominator (thousands of shares):				
Weighted-average common shares outstanding — basic	173,991	173,742	173,744	173,625
Incremental shares issuable for stock options and awards (a)	2,816	—	2,958	3,500
Weighted-average common shares outstanding — diluted	176,807	173,742	176,702	177,125

(a) For the three months ended June 30, 2018 and the nine months ended June 30, 2018 and 2017, there were no shares associated with outstanding stock option awards that were excluded in the computation of diluted earnings per share above because their effect was antidilutive. For the three months ended June 30, 2017, incremental shares of 3,556 have been excluded due to the net loss for the period.

Derivative Instruments. Derivative instruments are reported on the condensed consolidated balance sheets at their fair values, unless the normal purchase and normal sale ("NPNS") exception is elected. The accounting for changes in fair value depends upon the purpose of the derivative instrument and whether it qualifies and is designated as a hedge for accounting purposes.

Certain of our derivative instruments qualify and are designated as cash flow hedges. For cash flow hedges, changes in the fair values of the derivative instruments are recorded in accumulated other comprehensive income (loss) ("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. Unrealized gains and losses on substantially all of the commodity derivative instruments used by UGI Utilities (for which NPNS has not been elected) 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 AOCI until such foreign net investment is sold or liquidated.

Beginning October 1, 2016, 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 have entered into forward foreign currency exchange contracts. Because these contracts do not qualify for hedge accounting treatment, realized and unrealized gains and losses on these contracts are recorded in “Gain (loss) on foreign currency contracts, net” on the Condensed Consolidated Statements of Income.

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 13.

Intangible Assets. Intangible assets with indefinite lives are not amortized but are tested for impairment annually (and more frequently if events or changes in circumstances between annual tests indicate that it is more likely than not that they are impaired) and written down to fair value, if impaired. In April 2018, the Partnership's senior management approved a plan to discontinue the use of certain tradenames and trademarks, primarily associated with the Partnership's January 2012 acquisition of Heritage Propane, over a period of approximately three years. As a result, during the three months ended June 30, 2018, the Partnership determined that these tradenames and trademarks no longer had indefinite lives and, in accordance with GAAP associated with intangible assets, adjusted the carrying amounts of these tradenames and trademarks to their estimated fair values. For further information, see Notes 6 and 12.

Impairment of Cost Basis Investments. We reduce the carrying values of our cost basis investments when we determine that a decline in fair value is other than temporary. During the second quarter of Fiscal 2017, we recorded a pre-tax loss of $7.0 associated with an other-than-temporary impairment of our investment in a private equity partnership that invests in renewable energy companies. This loss is reflected in "Other operating income, net" on the Condensed Consolidated Statements of Income.

Income Taxes. UGI's consolidated effective income tax rate, defined as total income taxes as a percentage of income (loss) before income taxes, includes amounts associated with noncontrolling interests in the Partnership, which principally comprises AmeriGas Partners and AmeriGas OLP. AmeriGas Partners and AmeriGas OLP are not directly subject to federal income taxes. As a result, UGI's consolidated effective income tax rate is affected by the amount of income (loss) before income taxes attributable to noncontrolling interests in the Partnership not subject to income taxes.

See Note 5 for discussions regarding the December 22, 2017, enactment of the Tax Cuts and Jobs Act (the "TCJA") in the U.S. and changes in French tax laws.

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

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

Note 3 — Accounting Changes

Accounting Standards Not Yet Adopted

Other Comprehensive Income. In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This ASU provides that the stranded tax effects in AOCI resulting from the TCJA may be reclassified to retained earnings, at the election of the entity, in the period of adoption. The amendments in this ASU are effective for interim and annual periods beginning after December 15, 2018 (Fiscal 2020). Early adoption is permitted. We currently expect to adopt this ASU effective October 1, 2018. The Company is in the process of assessing the impact on its financial statements from the adoption of the new guidance but does not expect its adoption will have a material impact on its consolidated financial statements.

Derivatives and Hedging. In August 2017, the FASB issued 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. The amendments in this ASU are effective for interim and annual periods beginning after December 15, 2018 (Fiscal 2020). Early adoption is permitted. For cash flow and net investment hedges as of the adoption date, the guidance requires a modified retrospective approach. The amended presentation and disclosure guidance is required only prospectively. 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.

Table of Contents
UGI CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)
(Currency in millions, except per share amounts and where indicated otherwise)

Pension and Other Postretirement Benefit Costs. In March 2017, the FASB issued ASU No. 2017-07, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.” This ASU requires entities to disaggregate the service cost component from the other components of net periodic benefit costs and present it with compensation costs for related employees in the income statement. The other components are required to be presented elsewhere in the income statement and outside of income from operations. The amendments in this ASU permit only the service cost component to be eligible for capitalization when applicable. For entities subject to rate regulation, however, the ASU recognized that in the event a regulator continues to require capitalization of all net periodic benefit costs prospectively, the difference would result in the recognition of a regulatory asset or liability. The amendments in this ASU are effective for interim and annual periods beginning after December 15, 2017 (Fiscal 2019) with a retrospective adoption for income statement presentation and a prospective adoption for capitalization. We will adopt this ASU effective October 1, 2018. The Company is in the process of assessing the impact on its financial statements from the adoption of the new guidance but does not expect its adoption will have a material impact on its consolidated financial statements.

Restricted Cash. In November 2016, the FASB issued ASU No. 2016-18, “Statement of Cash Flows: Restricted Cash.” This ASU provides guidance on the classification of restricted cash in the statement of cash flows. The amendments in the ASU are required to be adopted on a retrospective basis. The ASU is effective for interim and annual periods beginning after December 15, 2017 (Fiscal 2019). Early adoption is permitted. We currently expect to adopt this ASU effective October 1, 2018. The Company is in the process of assessing the impact on its financial statements from the adoption of the new guidance but does not expect its adoption will have a material impact on its consolidated financial statements.

Leases. In February 2016, the FASB issued ASU No. 2016-02, "Leases." This ASU, as subsequently updated, amends existing guidance to require entities that lease assets to recognize the assets and liabilities for the rights and obligations created by those leases on the balance sheet. The new guidance also requires additional disclosures about the amount, timing and uncertainty of cash flows from leases. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2018 (Fiscal 2020). Early adoption is permitted. Lessees must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. In July 2018, the FASB issued ASU No. 2018-11, “Leases: Targeted Improvements.” Among other things, this ASU provides entities with a transition option to recognize the cumulative-effect adjustment from the modified retrospective application to the opening balance of retained earnings in the period of adoption rather than the earliest period presented in the financial statements. We currently expect to adopt ASU No. 2016-02, as updated, effective October 1, 2019. The Company has not yet selected a transition method and is currently in the process of assessing the impact on its financial statements from the adoption of ASU No. 2016-02 but anticipates an increase in the recognition of right-of-use assets and lease liabilities.

Revenue Recognition. In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”). The guidance provided under this ASU, as amended, supersedes the revenue recognition requirements in Accounting Standards Codification (“ASC”) No. 605, “Revenue Recognition,” and most industry-specific guidance included in the ASC. ASU 2014-09 requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance is effective for the Company for interim and annual periods beginning after December 15, 2017 (Fiscal 2019) and allows for either full retrospective adoption or modified retrospective adoption.

The Company is in the process of analyzing the impact of the new guidance using an integrated approach which includes evaluating differences in the amount and timing of revenue recognition from applying the requirements of the new guidance, reviewing its accounting policies and practices, and assessing the need for changes to its processes, accounting systems and design of internal controls. The Company has completed the assessment of a significant number of its contracts with customers under the new guidance to determine the effect of the adoption of the new guidance. Although the Company has not completed its assessment of the impact of the new guidance, the Company does not expect its adoption will have a material impact on its consolidated financial statements.

The Company anticipates that it will adopt the new standard using the modified retrospective transition method effective October 1, 2018.

UGI CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)
(Currency in millions, except per share amounts and where indicated otherwise)

Note 4 — Inventories

Inventories comprise the following:

	June 30, 2018	September 30, 2017	June 30, 2017
Non-utility LPG and natural gas	$ 177.0	$ 188.4	$ 135.4
Gas Utility natural gas	18.6	39.5	21.8
Materials, supplies and other	57.6	50.7	58.9
Total inventories	$ 253.2	$ 278.6	$ 216.1

At June 30, 2018, UGI Utilities was a party to five principal storage contract administrative agreements ("SCAAs") which have terms of up to three years. Pursuant to the SCAAs, UGI Utilities has, among other things, released certain storage and transportation contracts for the terms of the SCAAs. UGI Utilities also transferred certain associated 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.

As of June 30, 2018, UGI Utilities had SCAAs with Energy Services, LLC, the effects of which are eliminated in consolidation, and with a non-affiliate. The carrying value of gas storage inventories released under the SCAAs with the non-affiliate at June 30, 2018, September 30, 2017 and June 30, 2017, comprising 1.2 billion cubic feet ("bcf"), 2.3 bcf and 1.1 bcf of natural gas, was $2.7, $6.7, and $3.5, respectively.

Note 5 — Income Tax Reform

U.S. Tax Reform

On December 22, 2017, the TCJA was enacted into law. Among the significant changes resulting from the law, the TCJA reduces the U.S. federal income tax rate from 35% to 21%, effective January 1, 2018, creates a territorial tax system with a one-time mandatory "toll tax" on previously un-repatriated foreign earnings, and allows for immediate capital expensing of certain qualified property. It also applies restrictions on the deductibility of interest expense, eliminates bonus depreciation for regulated utilities and applies a broader application of compensation limitations.
In accordance with GAAP as determined by ASC 740, "Income Taxes," we are required to record the effects of tax law changes in the period enacted. As further discussed below, our results for the three and nine months ended June 30, 2018, contain provisional estimates of the impact of the TCJA. Provisional amounts recorded in the quarter ended December 31, 2017, were adjusted in the quarters ended March 31, 2018 and June 30, 2018 to reflect the effects of items finalized by the filing of tax returns or by changes in estimates and judgments. In accordance with SEC Staff Accounting Bulletin ("SAB") No. 118, we will adjust these provisional amounts as further information becomes available and as we refine our calculations. As permitted by SAB No. 118, these adjustments may occur during a reasonable "measurement period" not to exceed twelve months from the date of enactment.
As a result of the TCJA, during the three and nine months ended June 30, 2018, we reduced our net deferred income tax liabilities by $0.8 and $389.6, respectively, due to the remeasuring of our existing federal deferred income tax assets and liabilities as of the date of the enactment of the TCJA on December 22, 2017, and as a result of adjusting

prior provisional amounts during the quarter ended June 30, 2018. Because part of the reduction to our net deferred income taxes relates to UGI Utilities' regulated utility plant assets, as further described below, most of UGI Utilities' reduction in deferred income taxes is not being recognized immediately in income tax expense.

Table of Contents
UGI CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)
(Currency in millions, except per share amounts and where indicated otherwise)

Discrete deferred income tax adjustments recorded during the three and nine months ended June 30, 2018, which reduced (increased) income tax expense consisted primarily of the following items:

	Provisional amounts - Six months ended March 31, 2018	Changes to provisional amounts - Three months ended June 30, 2018	Provisional amounts - Nine months ended June 30, 2018
Reduction in net deferred tax liabilities in the U.S. from the reduction of the U.S. tax rate	$ 180.3	$ 0.8	$ 181.1
Establishment of valuation allowances related to deferred tax assets impacted by TCJA	(7.6)	—	(7.6)
Toll-tax on un-repatriated earnings	(1.4)	—	(1.4)
Total discrete deferred income tax adjustments	$ 171.3	$ 0.8	$ 172.1
Impact on earnings per share:			
Basic earnings per share	$ 0.99	$ —	$ 0.99
Diluted earnings per share	$ 0.97	$ —	$ 0.97

In order for UGI Utilities' regulated utility plant assets to continue to be eligible for accelerated tax depreciation, current law requires that excess deferred federal income taxes resulting from the remeasurement of deferred taxes on regulated utility plant be amortized no more rapidly than over the remaining lives of the assets that gave rise to the excess deferred income taxes. As a result of the TCJA, in December 2017, UGI Utilities recorded a regulatory liability of $216.1 associated with excess deferred federal income taxes related to its regulated utility plant assets. This regulatory liability was increased, and a federal deferred income tax asset was recorded, in the amount of $87.8 to reflect the tax benefit generated by the amortization of the excess deferred federal income taxes. This regulatory liability is being amortized to income tax expense over the remaining lives of the assets that gave rise to the excess deferred income taxes. For further information on this regulatory liability, see Note 7.

For the three and nine months ended June 30, 2018, we included the estimated impacts of the TCJA in determining our estimated annual effective income tax rate. We are subject to a blended federal tax rate of 24.5% for Fiscal 2018 because our fiscal year contains the effective date of the rate change from 35% to 21%. As a result, the U.S. federal income tax rate included in our estimated annual effective tax rate is based on the 24.5% blended rate for Fiscal 2018. For the three and nine months ended June 30, 2018, the effects of the tax law changes on current-period results (excluding the one-time impacts described above) decreased income tax expense by approximately $6.1 and $60.6, respectively.

As further described in Note 7, on May 17, 2018, the PUC issued a Temporary Rates Order for all PUC-regulated utilities with regard to federal tax reform. Among other things, the Temporary Rates Order requires Pennsylvania utilities to establish a regulatory liability for tax benefits that accrued during the period January 1, 2018 through June 30, 2018, resulting from the change in the federal income tax rate from 35% to 21%. During the three months ended June 30, 2018, UGI Utilities reduced its combined utility revenues by $22.7 (which is in addition to a $1.4 reduction previously recorded in March 2018), and recorded a regulatory liability in an equal amount. The total reduction in revenues for the nine months ended June 30, 2018 of $24.1 reflects (1) $17.1 of tax benefits accrued during the period January 1, 2018 to June 30, 2018, plus (2) $7.0 to reflect tax benefits expected to be generated by the future amortization of the regulatory liability.

Changes in French Corporate Income Tax Rates

In December 2017, the French Parliament approved the Finance Bill for 2018 and the second amended Finance Bill for 2017 (collectively, the “December 2017 French Finance Bills”). One impact of the December 2017 French Finance Bills is an increase in the Fiscal 2018 corporate income tax rate in France from 34.4% to 39.4%. The December 2017 French Finance Bills also include measures to reduce the corporate income tax rate to 25.8%, effective for fiscal years starting after January 1, 2022 (Fiscal 2023).

As a result of the December 2017 French Finance Bills, during the three months ended December 31, 2017, the Company reduced its net French deferred income tax liabilities and recognized an estimated deferred tax benefit of $17.3 to reflect the estimated impact of the previously mentioned corporate income tax rate reduction effective in Fiscal 2023. During the three months ended March 31, 2018 and June 30, 2018, this estimated deferred income tax benefit was reduced by $3.7 and $0.1, respectively, to a benefit of $13.5 (equal to $0.08 per basic and diluted share) for the nine months ended June 30, 2018. In addition, the Company's estimated annual effective income tax rate used in determining income taxes for the nine months ended June 30, 2018, reflects the impact of the higher Fiscal 2018 income tax rate as a result of the December 2017 French Finance Bills, which (decreased) increased income tax expense for the three and nine months ended June 30, 2018, by approximately $(0.2) and $4.7, respectively.

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

In December 2016, the French Parliament approved the Finance Bill for 2017 and amended the Finance Bill for 2016 (collectively, the "December 2016 French Finance Bills"). The December 2016 French Finance Bills, among other things, will reduce UGI France's corporate income tax rate from the then-current 34.4% to 28.9%, effective for fiscal years starting after January 1, 2020 (Fiscal 2021). As a result of this future income tax rate reduction, during the three months ended December 31, 2016, the Company reduced its net French deferred income tax liabilities and recognized an estimated deferred tax benefit of $27.4 (equal to $0.15 per basic and diluted share).

Note 6 — Goodwill and Intangible Assets

Goodwill and intangible assets comprise the following:

	June 30, 2018	September 30, 2017	June 30, 2017
Goodwill (not subject to amortization)	$3,169.0	$ 3,107.2	$3,032.3
Intangible assets:			
Customer relationships, noncompete agreements and other	$852.5	$ 817.8	$801.6
Trademarks and tradenames	7.9	—	—
Accumulated amortization	(381.2)	(340.2)	(362.8)
Intangible assets, net (definite-lived)	479.2	477.6	438.8
Trademarks and tradenames (indefinite-lived)	50.6	134.1	132.4
Total intangible assets, net	$529.8	$ 611.7	$571.2

The changes in goodwill and intangible assets are primarily due to acquisitions, an impairment of Partnership tradenames and trademarks (see below) and the effects of foreign currency translation. Amortization expense of intangible assets was $14.9 and $12.6 for the three months ended June 30, 2018 and 2017, respectively. Amortization expense of intangible assets was $43.4 and $37.5 for the nine months ended June 30, 2018 and 2017, respectively. Amortization expense included in "Cost of sales" on the Condensed Consolidated Statements of Income was not material. The estimated aggregate amortization expense of intangible assets for the remainder of Fiscal 2018 and for the next four fiscal years is as follows: remainder of Fiscal 2018 — $14.7; Fiscal 2019 — $57.2; Fiscal 2020 — $55.8; Fiscal 2021 — $52.5; Fiscal 2022 — $49.5.

In April 2018, a plan to discontinue the use of certain indefinite-lived tradenames and trademarks, primarily associated with its January 2012 acquisition of Heritage Propane, was presented to the Partnership's senior management. After considering the merits of the plan, the Partnership's senior management approved a plan to discontinue the use of these tradenames and trademarks over a period of approximately three years. As a result, during the three months ended June 30, 2018, the Partnership determined that these tradenames and trademarks no longer had indefinite lives and, in accordance with GAAP associated with intangible assets, adjusted the carrying amounts of these tradenames and trademarks to their estimated fair values of approximately $7.9. During the three months ended June 30, 2018, the Partnership recorded a non-cash, pre-tax impairment charge of $75.0 which amount is reflected in "Impairment of Partnership tradenames and trademarks" on the Condensed Consolidated Statements of Income, and is amortizing the remaining fair value of these tradenames and trademarks of $7.9 over their estimated period of benefit of three years. See Note 12 for further information on the determination of fair values for the affected tradenames and trademarks.

Table of Contents
UGI CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)
(Currency in millions, except per share amounts and where indicated otherwise)

Note 7 — 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 8 in the Company's 2017 Annual Report. Other than removal costs, UGI Utilities currently does not recover a rate of return on its regulatory assets. The following regulatory assets and liabilities associated with UGI Utilities are included in our accompanying condensed consolidated balance sheets:

	June 30, 2018	September 30, 2017	June 30, 2017
Regulatory assets:			
Income taxes recoverable	$ 130.0	$ 121.4	$ 122.7
Underfunded pension and postretirement plans	132.2	141.3	171.8
Environmental costs	59.8	61.6	61.6
Deferred fuel and power costs	0.2	7.7	7.0
Removal costs, net	31.0	31.0	29.4
Other	6.9	5.9	6.3
Total regulatory assets	$ 360.1	$ 368.9	$ 398.8
Regulatory liabilities (a):			
Postretirement benefits	$ 16.9	$ 17.5	$ 16.7
Deferred fuel and power refunds	44.5	10.6	12.6
State tax benefits — distribution system repairs	20.7	18.4	16.7
PUC Temporary Rates Order (b)	24.1	—	—
Excess federal deferred income taxes (c)	301.2	—	—
Other	5.1	2.7	2.7
Total regulatory liabilities	$ 412.5	$ 49.2	$ 48.7

(a) Regulatory liabilities are recorded in "Other current liabilities" and "Other noncurrent liabilities" on the Condensed Consolidated Balance Sheets.

(b) Balance at June 30, 2018, comprises tax savings for the period January 1, 2018 to June 30, 2018 resulting from the enactment of the TCJA (see "PUC Temporary Rates Order" below and Note 5).

(c) Balance at June 30, 2018, comprises excess federal deferred income taxes resulting from the enactment of the TCJA (see "Excess federal deferred income taxes" below and Note 5).

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 purchased gas cost ("PGC") rates in the case of Gas Utility and default service ("DS") tariffs in the case of Electric Utility. The 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 firm- residential, commercial and industrial ("retail core-market") customers. Realized and unrealized gains or losses on natural gas derivative instruments are included in deferred fuel costs or refunds. Net unrealized gains (losses) on such contracts at June 30, 2018, September 30, 2017 and June 30, 2017 were $1.9, $0.1 and $(0.1), respectively.

In order to reduce volatility associated with a substantial portion of its electric transmission congestion costs, Electric Utility, from time to time, obtains financial transmission rights ("FTRs"). FTRs are derivative instruments that entitle the holder to receive compensation for electricity transmission congestion charges when there is insufficient electricity transmission capacity on the electric transmission grid. Because Electric Utility is entitled to fully recover its DS costs, realized and unrealized gains or losses on FTRs are included in deferred fuel and power costs or deferred fuel and power refunds. Unrealized gains or losses on FTRs at September 30, 2017 and June 30, 2017, were not material. There were no open FTR positions as of June 30, 2018.

Table of Contents
UGI CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)
(Currency in millions, except per share amounts and where indicated otherwise)

PUC Temporary Rates Order. By Secretarial Letter dated January 12, 2018, the PUC initiated a review into whether public utility rates should be adjusted to reflect the tax savings from the change in the federal income tax rate from 35% to 21% for the period beginning January 1, 2018. Thereafter, on March 15, 2018, the PUC entered a Temporary Rates Order that converted commission-approved rates of most large Pennsylvania public utilities, including Gas Utility, into "temporary rates" for a period of no more than 12 months while the PUC reviewed the data and comments in response to the Secretarial Letter.
On May 17, 2018, the PUC ordered each regulated utility currently not in a general base rate case proceeding, including UGI Gas, PNG and CPG, to reduce their rates through the establishment of a negative surcharge applied to bills rendered on or after July 1, 2018. The temporary negative surcharge will be reconciled at the end of each fiscal year to actual tax savings realized. The negative surcharge will remain in place until the effective date of new rates established in the utility's next general base rate proceeding. For UGI Gas, PNG and CPG, such negative surcharge will reduce base rate revenues by 5.78%, 3.90% and 8.19%, respectively.

In its May 17, 2018 Order, the PUC also required Pennsylvania utilities to establish a regulatory liability for tax benefits that accrued during the period beginning January 1, 2018 through June 30, 2018, resulting from the reduced federal tax rate. For UGI Gas, PNG and CPG, during the three months ended June 30, 2018, UGI Utilities reduced its combined utility revenues by $22.7 (which is in addition to a $1.4 reduction previously recorded in March 2018), and recorded a regulatory liability in an equal amount. The total reduction in revenues for the nine months ended June 30, 2018 reflects (1) $17.1 of tax benefits accrued during the previously mentioned six-month period plus (2) $7.0 to reflect tax benefits expected to be generated by the future amortization of the regulatory liability. The rate treatment of this regulatory liability, including accrued interest, for each of UGI Gas, PNG and CPG will be addressed in a future proceeding. Like other similarly situated utilities, if UGI Gas, PNG or CPG have not filed a general base rate proceeding within three years of the Temporary Rates Order, UGI Gas, PNG and CPG will be required to file a petition to propose how to distribute the balance of these regulatory liabilities.

For Pennsylvania utilities currently in a general base rate proceeding, including Electric Utility, no negative surcharge will apply, and such tax benefits will be handled through that proceeding, including the benefits that accrue during the period beginning January 1, 2018 until the effective date of new base rates established in the proceeding. At June 30, 2018, such amount for Electric Utility was not material.
Excess federal deferred income taxes. This regulatory liability is the result of remeasuring UGI Utilities' federal deferred income tax liabilities on utility plant due to the enactment of the TCJA on December 22, 2017 (see Note 5). In order for our utility assets to continue to be eligible for accelerated tax depreciation, current law requires that excess federal deferred income taxes resulting from the remeasurement be amortized no more rapidly than over the remaining lives of the assets that gave rise to the excess federal deferred income taxes, ranging from 1 year to approximately 65 years. This regulatory liability has been increased to reflect the tax benefit generated by the amortization of the excess deferred federal income taxes and will be amortized and credited to tax expense.
Other Regulatory Matters

Base Rate Filings. On January 26, 2018, Electric Utility filed a rate request with the PUC to increase its annual base distribution revenues by $9.2, which was later reduced by the Company to $7.7 to reflect the impact of the TCJA and other adjustments. The increased revenues would fund ongoing system improvements and operations necessary to maintain safe and reliable electric service. Electric Utility requested that the new electric rates become effective March 27, 2018. The PUC entered an Order dated March 1, 2018, suspending the effective date for the rate increase to allow for investigation and public hearings in a review process that is expected to last up to nine months from the date of filing. The matter is currently pending before two PUC administrative law judges who are expected to issue a recommended decision that will be the subject of a final decision by the PUC. Although the Company expects to receive a final decision from the PUC in October 2018, the Company cannot predict the timing or the ultimate outcome of the rate case review process.

On August 31, 2017, the PUC approved a previously filed Joint Petition for Approval of Settlement of all issues providing for an $11.3 annual base distribution rate increase for PNG. The increase became effective on October 20, 2017.

On October 14, 2016, the PUC approved a previously filed Joint Petition for Approval of Settlement of all issues providing for a $27.0 annual base distribution rate increase for UGI Gas. The increase became effective on October 19, 2016.

Distribution System Improvement Charge. State legislation permits gas and electric utilities in Pennsylvania to recover a distribution system improvement charge ("DSIC") on eligible capital investments as an alternative ratemaking mechanism providing for a more timely cost recovery of qualifying capital expenditures between base rate cases.

PNG and CPG received PUC approval on a DSIC tariff, initially set at zero, in 2014. PNG and CPG began charging a DSIC at a rate other than zero beginning on April 1, 2015 and April 1, 2016, respectively. In May 2017, the PUC issued a final Order to approve an increase of the maximum allowable DSIC to 7.5% of billed distribution revenues effective July 1, 2017, for PNG and CPG, pending reconsideration at each company's Long-Term Infrastructure Improvement Plan filing. PNG's DSIC has been reset to zero as a result of its most recent base rate case. The DSIC rate for PNG will resume upon exceeding the threshold amount of DSIC-eligible plant in service agreed upon in the settlement of its most recent base rate case.

In November 2016, UGI Gas received PUC approval to establish a DSIC tariff mechanism, capped at 5% of distribution charges billed to customers, effective January 1, 2017. UGI Gas began recovering revenue under the mechanism effective July 1, 2018, for the amount of DSIC-eligible plant placed into service as it exceeded the threshold amount of DSIC-eligible plant agreed upon in the settlement of its recent base rate case during the third quarter of Fiscal 2018.

Utilities Merger Request. On March 8, 2018 and March 13, 2018, UGI Utilities filed merger authorization requests with the PUC and MD PSC, respectively, to merge PNG and CPG into UGI Utilities, with a targeted effective date of October 1, 2018. There are no expected changes to annual base distribution rates for the combined utilities or to existing regulatory assets and liabilities as a result of the proposed merger. On July 20, 2018, UGI Utilities filed a Joint Petition for Settlement among the parties to the proceeding for approval by two administrative law judges by recommended decision that will be the subject of a final decision by the PUC. On July 25, 2018 the MD PSC issued an order approving UGI Utilities' merger request. UGI Utilities cannot predict the timing or the ultimate outcome of the PUC review of the merger request. On August 3, 2018, FERC approved requests made by CPG, PNG, and UGI Utilities in May 2018 relating to the transfer of certain FERC authorizations from PNG and CPG to UGI Utilities, to ensure continuity of certain interstate gas transportation services currently conducted by CPG and PNG after the effective date of the proposed merger. With the receipt of these FERC approvals, the approval of an application to transfer CPG's service territory designation to UGI Utilities remains the only FERC approval yet to be received in connection with the proposed merger.

Note 8 — Energy Services Accounts Receivable Securitization Facility

Energy Services, LLC has an accounts receivable securitization facility ("Receivables Facility") with an issuer of receivables-backed commercial paper currently scheduled to expire in October 2018. The Receivables Facility, as amended, provides Energy Services, LLC with the ability to borrow up to $150 of eligible receivables during the period November to April and up to $75 of eligible receivables during the period May to October. Energy Services, LLC uses the Receivables Facility to fund working capital, margin calls under commodity futures contracts, capital expenditures, dividends and for general corporate purposes.

Under the Receivables Facility, Energy Services, LLC transfers, on an ongoing basis and without recourse, its trade accounts receivable to its wholly owned, special purpose subsidiary, Energy Services Funding Corporation ("ESFC"), which is consolidated for financial statement purposes. ESFC, in turn, has sold and, subject to certain conditions, may from time to time, sell an undivided interest in some or all of the receivables to a major bank. Amounts sold to the bank are reflected as “Short-term borrowings” on the Condensed Consolidated Balance Sheets. ESFC was created and has been structured to isolate its assets from creditors of Energy Services, LLC and its affiliates, including UGI. Trade receivables sold to the bank remain on Energy Services, LLC’s balance sheet and Energy Services, LLC reflects a liability equal to the amount advanced by the bank. The Company records interest expense on amounts owed to the bank. Energy Services, LLC continues to service, administer and collect trade receivables on behalf of the bank, as applicable. Losses on sales of receivables to the bank during the three and nine months ended June 30, 2018 and 2017, which are included in “Interest expense” on the Condensed Consolidated Statements of Income, were not material.

Table of Contents
UGI CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)
(Currency in millions, except per share amounts and where indicated otherwise)

Information regarding the trade receivables transferred to ESFC and the amounts sold to the bank for the nine months ended June 30, 2018 and 2017, as well as the balance of ESFC trade receivables at June 30, 2018, September 30, 2017 and June 30, 2017, is as follows:

	Nine Months Ended June 30,	
	2018	2017
Trade receivables transferred to ESFC during the period	$1,051.7	$848.3
ESFC trade receivables sold to the bank during the period	$176.0	$186.0

	June 30, 2018	September 30, 2017	June 30, 2017
ESFC trade receivables — end of period (a)	$ 58.3	$ 44.8	$ 51.6

(a) At June 30, 2018, there were no ESFC trade receivables sold to the bank. At September 30, 2017 and June 30, 2017, the amounts of ESFC trade receivables sold to the bank were $39.0 and $30.0, respectively. Amounts sold to the bank are reflected as “Short-term borrowings” on the Condensed Consolidated Balance Sheets.

Note 9 — Debt

AmeriGas Propane. In December 2017, AmeriGas Partners entered into the Second Amended and Restated Credit Agreement (“AmeriGas Credit Agreement”) with a group of banks. The AmeriGas Credit Agreement amends and restates a previous credit agreement. The AmeriGas Credit Agreement provides for borrowings up to $600 (including a $150 sublimit for letters of credit) and expires in December 2022. The AmeriGas Credit Agreement permits AmeriGas to borrow at prevailing interest rates, including the base rate, defined as the higher of the Federal Funds rate plus 0.50% or the agent bank’s prime rate, or at a one-week, one-, two-, three-, or six-month Eurodollar Rate, as defined in the AmeriGas Credit Agreement, plus a margin. The applicable margin on base rate borrowings ranges from 0.50% to 1.75%, and the applicable margin on Eurodollar Rate borrowings ranges from 1.50% to 2.75%. The aforementioned margins on borrowings are dependent upon AmeriGas Partners’ ratio of debt to earnings before interest expense, income taxes, depreciation and amortization (each as defined in the AmeriGas Credit Agreement).

During the three and nine months ended June 30, 2017, the Partnership recognized pre-tax losses of $4.4 and $59.7, respectively, in connection with early repayments of AmeriGas Partners’ 7.00% Senior Notes. These losses are reflected in “Loss on extinguishments of debt” on the Condensed Consolidated Statements of Income.

UGI International. In December 2017, UGI International, LLC, a wholly owned subsidiary of UGI, entered into a secured multicurrency revolving facility agreement (the "UGI International Credit Agreement") with a group of banks providing for borrowings up to €300. The UGI International Credit Agreement is scheduled to expire in April 2020. Under the UGI International Credit Agreement, UGI International, LLC may borrow in euros or U.S. dollars. Loans made in euros will bear interest at the associated euribor rate plus a margin ranging from 1.45% to 2.35%. Loans made in U.S. dollars will bear interest at LIBOR plus a margin ranging from 1.70% to 2.60%. The aforementioned margins are dependent upon certain indebtedness at UGI International, LLC. The UGI International Credit Agreement requires UGI International, LLC not to exceed a ratio of total net indebtedness to EBITDA, as defined, of 3.50 to 1.00.

Also in December 2017, Flaga repaid $9.2 of the outstanding principal amount of its then-existing $59.1 U.S. dollar denominated variable-rate term loan due September 2018. Concurrently, Flaga entered into an amendment to the aforementioned term loan, which amends and restates the previous agreement to provide for a principal balance of

$49.9 and extends the maturity of the term loan to April 2020 ("Flaga U.S. Dollar Term Loan"). The outstanding principal bears interest at the one-month LIBOR rate plus a margin of 1.125%. Flaga has effectively fixed the LIBOR component of the interest rate, and has effectively fixed the U.S. dollar value of the interest and principal payments payable under the Flaga U.S. Dollar Term Loan, by entering into a cross-currency swap arrangement with a bank. Because a portion of the cash flows related to the Flaga U.S. Dollar Term Loan were with the same bank, such cash flows have been reflected "net" in the financing activities section of the Condensed Consolidated Statement of Cash Flows.

UGI Utilities. In October 2017, UGI Utilities entered into a $125 unsecured variable-rate term loan agreement (the "Utilities Term Loan") with a group of banks. Proceeds from the Utilities Term Loan were used to repay revolving credit agreement borrowings

Table of Contents

and for general corporate purposes. The Utilities Term Loan is payable in equal quarterly installments of $1.6 commencing March 2018, with the balance of the principal being due and payable in full on October 30, 2022. Under the Utilities Term Loan, UGI Utilities may borrow at various prevailing market interest rates, including LIBOR and the banks' prime rate, plus a margin. The margin on such borrowings ranges from 0.0% to 1.875% and is based upon the credit ratings of certain indebtedness of UGI Utilities. The Utilities Term Loan requires that UGI Utilities not exceed a ratio of Consolidated Debt to Consolidated Total Capital, as defined.

Note 10 — Commitments and Contingencies

UGI Standby Commitment to Purchase AmeriGas Partners Class B Common Units

On November 7, 2017, UGI entered into a Standby Equity Commitment Agreement (the "Commitment Agreement") with AmeriGas Partners and AmeriGas Propane, Inc. Under the terms of the Commitment Agreement, UGI has committed to make up to $225 of capital contributions to the Partnership through July 1, 2019 (the "Commitment Period"). UGI's capital contributions may be made from time to time during the Commitment Period upon request of the Partnership. There have been no capital contributions made to the Partnership under the Commitment Agreement. In consideration for any capital contributions made pursuant to the Commitment Agreement, AmeriGas Partners will issue to UGI or a wholly owned subsidiary new Class B Common Units representing limited partner interests in AmeriGas Partners ("Class B Units"). The Class B Units will be issued at a price per unit equal to the 20-day volume-weighted average price of AmeriGas Partners Common Units prior to the date of the Partnership's related capital call. The Class B Units will be entitled to cumulative quarterly distributions at a rate equal to the annualized Common Unit yield at the time of the applicable capital call, plus 130 basis points. The Partnership may choose to make the distributions in cash or in the form of additional Class B Units. While outstanding, the Class B Units will not be subject to any incentive distributions from the Partnership.

At any time after five years from the initial issuance of the Class B Units, holders may elect to convert all or any portion of the Class B Units they own into Common Units on a one-for-one basis, and at any time after six years from the initial issuance of the Class B Units, the Partnership may elect to convert all or any portion of the Class B Units into Common Units if (i) the closing trading price of the Common Units is greater than 110% of the applicable purchase price for the Class B Units and (ii) the Common Units are listed or admitted for trading on a National Securities Exchange. Upon certain events involving a change of control and immediately prior to a liquidation or winding up of the Partnership, the Class B Units will automatically convert into Common Units on a one-for-one basis.

Environmental Matters

UGI Utilities

From the late 1800s through the mid-1900s, UGI Utilities and its current and former subsidiaries owned and operated a number of manufactured gas plants ("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 Pennsylvania operations, including those which now constitute UGI Gas and Electric Utility. UGI Utilities also has two acquired subsidiaries (CPG and PNG) with similar histories of owning, and in some cases operating, MGPs in Pennsylvania.

Each of UGI Utilities and its subsidiaries, CPG and PNG, has entered into a consent order and agreement ("COA") with the Pennsylvania Department of Environmental Protection ("DEP") to address the remediation of former MGPs in Pennsylvania. In accordance with the COAs, UGI Utilities, CPG and PNG are each 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 or make expenditures for such activities in an amount equal to an annual environmental cost cap. The CPG COA includes an obligation to plug specified natural gas wells. The COA environmental costs caps are $2.5, $1.8, and $1.1, for UGI Utilities, CPG and PNG, respectively. The COAs for UGI Utilities, CPG and PNG are currently scheduled to terminate at the end of 2031, 2018, and 2019, respectively. At June 30, 2018, September 30, 2017 and June 30, 2017, our estimated accrued liabilities for environmental investigation and remediation costs related to the COAs for UGI Utilities, CPG and PNG totaled $52.2, $54.3 and $55.2, respectively. UGI Utilities, CPG and

PNG have recorded associated regulatory assets for these costs because recovery of these costs from customers is probable (see Note 7).

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, CPG and PNG receive 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.

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. At June 30, 2018, September 30, 2017 and June 30, 2017, neither the undiscounted nor the accrued liability for environmental investigation and cleanup costs for UGI Utilities' MGP sites outside of Pennsylvania was material.

AmeriGas Propane

AmeriGas OLP Saranac Lake. By letter dated March 6, 2008, the New York State Department of Environmental Conservation ("DEC") notified AmeriGas OLP that the DEC 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 DEC disclosed contamination related to a former MGP. At that time, AmeriGas OLP reviewed the study and researched the history of the site, including the extent of AmeriGas OLP's ownership. In its written response to the DEC in early 2009, AmeriGas OLP disputed DEC's contention it was a potentially responsible party ("PRP") as it did not operate the MGP and appeared to only own a portion of the site. The DEC did not respond to the 2009 communication. In March 2017, the DEC communicated to AmeriGas OLP that the DEC had previously issued three Records of Decision ("RODs") related to remediation of the site and requested additional information regarding AmeriGas OLP's purported ownership. The selected remedies identified in the RODs total approximately $27.7. AmeriGas OLP responded to the DEC's March 2017 request for ownership information, renewing its challenge to designation as a PRP and identifying potential defenses. In October 2017, the DEC identified a third party PRP with respect to the site. The DEC commenced implementation of the remediation plan in the spring of 2018. Based on our evaluation of the available information, the Partnership accrued an environmental remediation liability of $7.5 related to the site during the third quarter of Fiscal 2017. 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 Division of the United States District Court for the Western District of Missouri ("District Court"). In July 2015, the District Court dismissed all claims brought by direct customers. In June 2017, the United States Court of Appeals for the Eighth Circuit ("Eighth Circuit") ruled en banc to reverse the dismissal by the District Court, which had previously been affirmed by a panel of the Eighth Circuit. In September 2017, we filed a Petition for a Writ of Certiorari to the U.S. Supreme Court appealing the decision of the Eighth Circuit. The petition was denied in January 2018 and, as a result, the case was transferred back to the District Court for further proceedings.

Table of Contents
UGI CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)
(Currency in millions, except per share amounts and where indicated otherwise)

In July 2015, the District Court also dismissed all claims brought by the indirect customers other than claims for injunctive relief. The indirect customers filed an amended complaint with the District Court claiming injunctive relief and state law claims under Wisconsin, Maine and Vermont law. In September 2016, the District Court dismissed the amended complaint in its entirety. The indirect customers appealed this decision to the Eighth Circuit. On July 21, 2016, several new indirect customer plaintiffs filed an antitrust class action lawsuit against the Partnership in the Western District of Missouri. The new indirect customer class action lawsuit was dismissed in September 2016 and certain indirect customer plaintiffs appealed the decision, consolidating their appeal with the indirect customer appeal then pending in the Eighth Circuit. In June 2018, the Eighth Circuit issued its decision affirming the District Court's decision dismissing the federal antitrust claims, and remanded the case back to the District Court for further proceedings related to the state law claims.

We are unable to reasonably estimate the impact, if any, arising from such litigation. We believe we have strong defenses to the claims and intend to vigorously defend against them.

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 11 — Defined Benefit Pension and Other Postretirement Plans

In the U.S., we sponsor a defined benefit pension plan for employees hired prior to January 1, 2009, of UGI, UGI Utilities, PNG, CPG and certain of UGI's other domestic wholly owned subsidiaries ("U.S. Pension Plan&#8221