

IGI LABORATORIES, INC  
Form 10-K  
March 31, 2014

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2013**

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 001-08568**

**IGI Laboratories, Inc.**

(Name of small business issuer in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**105 Lincoln Ave., Buena, NJ**  
(Address of principal executive offices)

**01-0355758**  
(I.R.S. Employer  
Identification No.)

**08310**  
(Zip Code)

**Registrant's telephone number: (856) 697-1441**

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock \$0.01 Par Value	NYSE MKT

Securities registered pursuant to Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

Indicate by check 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  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  No

Indicate by check if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
[Do not check if a smaller reporting company]

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

The aggregate market value of the registrant's voting common stock held by non-affiliates of the registrant (without admitting that any person whose shares are not included in such calculation is an affiliate) computed by reference to the price at which the common stock was last sold on June 28, 2013 was approximately \$32.5 million.

As of March 25, 2014, there were 47,019,121 shares of the registrant's common stock outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

The following documents (or parts thereof) are incorporated by reference into the following parts of this Form 10-K: Certain information required in Part III of this Annual Report on Form 10-K is incorporated from the Registrant's Proxy Statement for the 2013 Annual Meeting of Stockholders to be held on or about May 27, 2014.

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>Part I.</b>	
Item 1. Business.	4
Item 1A. Risk Factors.	12
Item 1B. Unresolved Staff Comments.	21
Item 2. Properties.	21
Item 3. Legal Proceedings.	21
Item 4. Mine Safety Disclosures	21
<b>Part II.</b>	<b>22</b>
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.	22
Item 6. Selected Financial Data.	22
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.	23
Item 7A. Quantitative and Qualitative Disclosures About Market Risk.	29
Item 8. Financial Statements and Supplementary Data.	29
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.	29
Item 9A. Controls and Procedures.	29
Item 9B. Other Information.	30
<b>Part III.</b>	
Item 10. Directors, Executive Officers and Corporate Governance.	30
Item 11. Executive Compensation.	30
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.	30

Item 13. Certain Relationships and Related Transactions and Director Independence.	30
Item 14. Principal Accountant Fees and Services.	30
<b>Part IV.</b>	
Item 15. Exhibits and Financial Statement Schedules.	31

## **PART I**

### **ITEM 1.**

#### **BUSINESS**

##### **Overview**

IGI Laboratories, Inc. is a developer, manufacturer, and marketer of topical formulations. Our goal is to become a leader in the generic topical pharmaceutical market. Under our IGI label, we sell generic topical pharmaceutical products that are bioequivalent to their brand name counterparts. We also provide development, formulation, and manufacturing services to the pharmaceutical, over-the-counter (OTC) and cosmetic markets.

Currently, we have two platforms for growth:

Manufacturing, developing, and marketing a portfolio of generic pharmaceutical products in our own label in topical dosage forms; and,

Increasing our current contract manufacturing and formulation services business.

In addition, we will continue to explore ways to accelerate our growth through the creation of unique opportunities from the acquisition of additional intellectual property, and the expansion of the use of our existing intellectual property, including our licensed Novasome® technology.

In December 2012, we completed the implementation of our commercial infrastructure and launched our first generic topical pharmaceutical products under the IGI label. To date, we have filed fourteen Abbreviated New Drug Applications, or ANDAs, with the United States Food and Drug Administration, or FDA for additional

pharmaceutical products. On March 12, 2014, we received our first approval from the FDA for an ANDA. We expect to continue to expand our presence in the generic topical pharmaceutical market through the filing of additional ANDAs with the FDA and the subsequent launch of products as these applications are approved. Our target is to file at least ten ANDAs in 2014 through our internal research and development program. We will also seek to license or acquire further products, intellectual property, or ANDAs to expand our portfolio. On February 1, 2013, we acquired assets and intellectual property, including an ANDA, for econazole nitrate cream 1%, which we launched in September 2013.

IGI also develops manufactures, fills, and packages topical semi-solid and liquid products for branded and generic pharmaceutical customers as well as the OTC and cosmetic markets. These products are used in a wide range of applications from cosmetics and cosmeceuticals to the prescription treatment of conditions like dermatitis, psoriasis, and eczema.

We perform all of our product development and manufacturing at our facility in Buena, New Jersey. Our head office, product development laboratories, and manufacturing facility are located at 105 Lincoln Avenue, Buena, New Jersey. Our telephone number is 856-697-1441 and our website is <http://www.igilabs.com>. We have not incorporated by reference in this Annual Report on Form 10-K the information on, or accessible through, our website.

## Recent Developments

We filed five ANDAs in 2013 with the FDA, one in January 2013, one in April 2013, one in July 2013, one in September 2013 and one in October 2013.

In December 2013, we executed a license, development, supply and marketing agreement with a large multi-national pharmaceutical company. In accordance with the confidentiality agreement in place, the name of the company remains undisclosed. The agreement designates us as the developer and manufacturer of a generic topical pharmaceutical drug product, which will be licensed, marketed and distributed in the United States by our partner, or its subsidiaries. The named product in the agreement was developed at IGI. We filed the ANDA associated with the named generic pharmaceutical product. In accordance with the agreement, our partner is required to pay IGI when certain milestones are met related to the filing and approval of the associated ANDA. In addition, in accordance with the agreement, IGI will also receive a share of the profits following the approval and commercialization of the product.



On March 3, 2014, we submitted our first ANDA for 2014 to the FDA, which brought our total number of ANDA submissions to fourteen.

On March 12, 2014, we received our first approval from the FDA for an ANDA. Lidocaine hydrochloride USP 4% topical solution is indicated for the production of topical anesthesia of accessible mucous membranes of the oral and nasal cavities and proximal portions of the digestive tract. Based on November 2013 IMS Health data, the total addressable market for this product is approximately \$1.8 million, in which IGI will currently compete with two other manufacturers. IGI originally submitted this ANDA to the FDA in May, 2012.

On March 31, 2014, IGI filed a Form 8-K disclosing that on March 25, 2014, Joyce Erony, a director and the chairperson of the IGI Laboratories, Inc.'s Board of Directors, advised us that she will not stand for re-election as a director at the IGI annual meeting to be held on May 27, 2014. Also included in the 8-K, was the announcement that on March 28, 2014, Michael B. Hemric advised IGI that he will be resigning as a director of the IGI Board of Directors effective April 1, 2014. We have begun the interview process to appoint new directors to IGI's Board.

## **Our Services and Products**

### *IGI's Generic Pharmaceutical Business*

IGI has been in the contract manufacturing and development business for several years, offering contract manufacturing and formulation services to its pharmaceutical, OTC, and cosmetic customers. In 2010, we leveraged our existing formulation capabilities and began the transformation from solely a contract manufacturing and development company into a generic pharmaceutical company. The foundation of our generic pharmaceutical business began in September 2010, when we filed our first ANDA with the FDA. From September 2010 to date, we have filed fourteen ANDAs, all for further expansion of our generic topical pharmaceutical portfolio of prescription products. On March 12, 2014, we received our first approval from the FDA for an ANDA. We now have thirteen filings pending at the FDA.

In December of 2011, we executed an agreement with one of our pharmaceutical partners, Medimetriks Pharmaceuticals, Inc. (Medimetriks), a branded specialty pharmaceutical company dedicated to the dermatology market. This agreement included IGI's appointment as Medimetriks' authorized generic (AG) distributor for certain products. In order to prepare to launch our first IGI label products, in 2012, we began to build our commercial infrastructure. We finalized all of our state licensing requirements, implemented our procedures with our third-party

logistics partner, designed our sales order to cash administrative processes and added our first manager of national accounts to manage our sales. These processes led to the execution of our first contracts with large drug wholesalers, distributors and national retail chains. In October 2012, Medimetriks launched its first three products in its Synalar® (fluocinolone acetonide) line of prescription topical products, and on November 1, 2012, IGI gained authorization to launch generic distribution of certain of these products. In December 2012, we launched our first product, the AG for fluocinolone acetonide topical solution, and in January 2013, we successfully launched the AG for the fluocinolone acetonide ointment and cream.

With the commercial infrastructure and the distribution channels in place, and three products successfully launched, we executed a product acquisition to expand our portfolio. On February 1, 2013, we acquired assets and intellectual property, including an ANDA, for econazole nitrate cream 1% from Prasco, LLC, a privately-held pharmaceutical company located in Ohio. Econazole nitrate cream 1%, which is available in 15g, 30g, and 85g tubes, is an anti-fungal cream that has FDA approved indications for the treatment of tinea pedis, tinea cruris, and tinea corporis as well as the treatment of cutaneous candidiasis and tinea versicolor. The FDA gave approval of the manufacturing site transfer in September of 2013 and IGI began to manufacture the product at our Company's facility in Buena, New Jersey, and distribute the product in an IGI label.

Our strategy is focused on the growth of our generic pharmaceutical business. We have filed fourteen ANDAs to date, and we have a number of additional product candidates in various stages of development. The addressable market, based on November 2013 IMS Health Reports data for the products we have pending at the FDA, totals over \$330 million in annual sales. We expect to continue to expand our presence in the generic topical pharmaceutical market through the filing of additional ANDAs with the FDA and the subsequent launch of products as these applications are approved. Our target is to file ten ANDAs in 2014 through our internal research and development program. We will also seek to license or acquire further products, intellectual property, or ANDAs to expand our portfolio.

ANDAs are submitted to the FDA for generic drug products that are bioequivalent versions of innovator brand drug products. ANDA approval by the FDA allows for the interchangeability in the United States of the generic product with the innovator drug, meaning that the generic version may be substituted for the brand product by either a physician or pharmacist when dispensing a prescription. Our commercialization of each of these products is subject to approval of our ANDA applications by the FDA. The FDA reports that its current average review time is about 32 months and that there is a backlog of more than 3,900 applications. The Generic Drug User Fee (GDUFA) program that was implemented in 2012 is anticipated to reduce review times and the backlog.

Topical drugs are defined as those intended for local external application, meaning used on the skin, scalp, eyes, and ears. We believe that the topical market segment is an attractive niche due to a number of factors, including the aging of the US population. In November 2013, IMS Health reports the US topical pharmaceutical market at \$11 billion in annual sales, of which generics make up \$3.9 billion, leaving significant room for growth by generic companies. The market for prescription generic topical products is dominated by a few large companies. We believe that there is room for IGI to compete in selected product areas.

Topical products have distinctive requirements for demonstrating bioequivalence in the context of an ANDA. The sponsor of an ANDA can reference the innovator's original new drug application for safety and efficacy data, thus avoiding, in many cases, the costly studies required to demonstrate these qualities. It is the responsibility of the ANDA sponsor to demonstrate bioequivalence to the innovator drug product. For topical drugs there are three means of addressing bioequivalence: by requesting a waiver from the FDA for certain older products and solutions, performing vasoconstriction studies for corticosteroids, and by performing comparative clinical trials against the innovator drug for products indicated for the treatment of acne, rosacea, fungal infections, bacterial infections and viral infections of the skin. Over time, we intend to develop and submit ANDAs, and eventually market topical drugs which could be subject to any of these bioequivalence requirements.

#### *Contract Manufacturing and Development Business*

Our contract manufacturing and development business includes two services: contract formulation and contract manufacturing. These services are offered to pharmaceutical, OTC, and cosmetic customers. For our pharmaceutical contract services customers we formulate, test and/or manufacture prescription pharmaceutical products and medical devices. The products include pure cosmetic formulations sold by retail stores directly to the public as well as prescription drug formulations promoted directly to physicians. All contract manufacturing products are produced in our customer's label.

Contract development involves developing topical formulations to satisfy a customer's product request. Our experienced formulators can develop a novel formulation or replicate an existing formula through reverse engineering. We offer full support to the products we develop through developing test methods, full analytical services, manufacturing scale-up criteria, validation, and regulatory assistance. Upon completion of our contract formulation projects for a fee, we are often successful in obtaining the contract manufacturing services contract to manufacture the products we helped the customer develop. We have filed several 510 (k) submissions with the FDA on behalf of our customers to approve the marketing and distribution of certain medical devices. In December of 2012, after completion of the required formulation and regulatory requirements, we filed two ANDAs on behalf of one of our pharmaceutical partners.

We believe our contract manufacturing and development business provides a consistent and reliable source for quality product manufacturing to our customers. We offer flexibility in batch sizing and package design, which gives our customer the opportunity to select the appropriate presentation for each product. Our high-speed packaging lines can accommodate a variety of tubes, bottles, pumps, and jars.

We believe that our contract manufacturing and development business will continue to be an important component of our success. We believe our specialized services in topical dermatologic product forms and our high-quality formulation capabilities, set us apart from others in this competitive market space. An integral part of our strategy is to partner with leading pharmaceutical and skin care companies, and assist them in developing and manufacturing products for sale in the pharmaceutical, OTC and cosmetic markets. We will continue to seek out strategic partnerships, particularly with pharmaceutical partners.

### *Novasome® Technology Platform*

We have an exclusive license for use of the patented Novasome® encapsulation technology in topical formulations, from Novavax, Inc., until December 11, 2015. The technology utilizes non-phospholipid structures for enhanced absorption via topical delivery of pharmaceuticals and cosmeceuticals. The Novasome® technology is inexpensive to manufacture, and its structures are stable, biodegradable, and highly hydrophobic and hydrophilic, making them suitable for a wide range of topical applications. Novasome® encapsulation has been demonstrated to provide the following benefits: improved product stability, reduced skin irritation, extended release of active ingredients, improved skin permeation, improved product aesthetics, and allowance of novel product forms.

Our Novasome® technology has been successfully used in a number of OTC products, including cosmetic and cosmeceutical products. We intend to continue to pursue collaboration opportunities with established skin care and pharmaceutical companies seeking to develop topical products with unique properties that allow us to utilize and capitalize on the Novasome® license. In addition, we will explore line extension opportunities through innovative packaging or alternate dosage forms of existing pharmaceutical molecules.

In February of 2013, we entered into a three-year agreement with Juventio, LLC, a New Jersey based company that distributes premium non-prescription health products, in partnership with healthcare professionals, to manufacture and supply finished dose forms of certain cosmetic and OTC products and formulations owned and developed by us. These products utilize the Novasome® technology. In the fourth quarter of 2013, we shipped the first products under this agreement.

Many of the Novasome® patents under this license have expired and more will expire before this license terminates on December 11, 2015. We have already filed our own patents based on this technology. An integral piece of this technology is manufacturing know-how which will not be lost as a result of the expiration of the license. As we continue to grow our generic pharmaceutical product portfolio, we believe that sales related to the Novasome® technology will constitute a smaller percentage of our sales in the future, but we believe we will be able to continue to utilize this technology subsequent to expiration of our license on December 11, 2015.

### **Our Competitive Strategy**

Our goal is to become a leader in the generic topical pharmaceutical market. Under our IGI label, we sell generic topical pharmaceutical products that are bioequivalent to their brand name counterparts. In addition, we expect to

continue to grow our contract manufacturing and development business for topical cosmetic, cosmeceutical and pharmaceutical products, with a specific emphasis on expanding the percentage of our business from pharmaceutical customers. The key elements of our strategy include:

*Develop Generic Pharmaceuticals.* We intend to continue to develop topical generic products and utilize our expertise in pharmaceutical formulation and manufacture to expand our own generic topical prescription drug portfolio. Through the ANDA process, we target to develop at least ten topical products in 2014 and then to market these products to national chain drug stores and drug wholesalers through our own internal sales efforts.

*Continue to Expand Relationships with Customers.* We have developed strong customer relationships, which we believe provide us with both recurring revenue streams from those customers and opportunities to increase our product offerings to our customers. We intend to continue to capitalize on our strong customer relationships to increase our contract manufacturing and development revenues.

*Leverage Experience to Expand Contract Services.* Our senior management team has significant experience in product selection, formulation, methods development and regulatory affairs for topical pharmaceutical products. We intend to continue to leverage this significant experience to expand our contract services relationships with our current customers and to provide our contract development, manufacturing, filling and packaging services to new customers.

*Leverage our Flexible Manufacturing Capabilities.* We have an FDA-registered, cGMP-compliant facility that is equipped for manufacturing topical, semi-solid and liquid products. The design and configuration of our manufacturing facility provides flexibility in manufacturing batch sizes from 250 kg up to 4,000 kg. We intend to leverage this flexibility and capacity to increase our contract manufacturing and development business and further advance our generic IGI product manufacturing and development.

## **Our Customers**

We have successfully broadened our customer base for our contract manufacturing and development business to increase our revenue growth. In 2013, we grew revenues from our contract development business, primarily as a result of our execution of three development services contracts with three of our pharmaceutical partners. We filed several 510 (k) submissions with the FDA on behalf of our partners, and in December 2012, we filed two ANDAs on behalf of one of these pharmaceutical partners, and under our agreement, if and when the ANDA is approved by the FDA we will be the named manufacturer of those topical pharmaceutical products.

Our customers in the contract manufacturing business generally consist of pharmaceutical companies as well as cosmetic, cosmeceutical and OTC product marketers who require product development/manufacturing support. In 2013, approximately sixty-one percent of our revenue was derived from pharmaceutical customers, as compared to forty-seven percent of total contract manufacturing revenue in 2012. We are focused on adding products and customers for our contract services business with a specific emphasis on pharmaceutical products and partners. We launched our first IGI labeled product in December 2012, and in 2013, we recorded \$7.4 million of net sales from our generic prescription drug products.

## **Research and Development**

Our R&D activities are integral to our business and are conducted at our facility in Buena, New Jersey. Our R&D department consists of eight full-time employees and their responsibilities include: formulation, reverse engineering, methods development, analytical and microbiologic testing and scale up. Our employees have specific expertise in developing topical products in a wide range of dosage forms, including simple solutions through complex creams. All ANDA development is conducted in-house except for bioequivalence testing, which is performed by what we believe to be a qualified contract research organization.

We have been steadily increasing our investment in R&D as we believe that R&D is the future of IGI. We incurred \$2.7 and \$2.8 million on R&D expenses in 2013 and 2012, respectively. We expect to at least double our R&D spending in 2014 to expand our ANDA submissions and pipeline.

## **Sales and Marketing**

We make, sell, distribute and market our IGI label generic topical prescription drug products to national chain drug stores and drug wholesalers and distributors. This commercialization infrastructure includes satisfying our state licensing requirements, procedures with our third-party logistics partner, an appropriate sales order to cash administrative processes and a manager of national accounts to manage our sales.

Our additional sales and marketing activities are currently focused on increasing our contract development and manufacturing activities, led by our senior vice president of contract services. We offer our contract manufacturing services directly to our customer base of pharmaceutical, OTC and cosmetic customers.

We will also look to out-license in-house developed products arising from Novasome® technology and products that are granted market exclusivity. This technology consists of the technology we license from Novavax, Inc. as well as our own patented technologies.

## **Competition**

In our generic topical prescription drug business, we face competition in the topical generic drug market from other generic drug manufacturers and brand-name pharmaceutical companies through authorized generics. Although there are a significant number of competitors in the generic drug market, there are fewer competitors in the topical generic drug market. The four dominant companies in the topical generic drug market consist of Taro Pharmaceutical Industries, Ltd., Sandoz, the generic pharmaceutical division of Novartis, Actavis, Inc. and Perrigo Company. Collectively, these four competitors control approximately sixty percent (60%) of the generic topical market by value based on IMS data in November 2013. We believe the concentrated nature of the topical generic drug market creates an opportunity for us. We believe we will be able to compete based on a variety of factors, including our focus on niche opportunities within the market segment and our dedication to quality in every area of our business.



The contract manufacturing services market is highly competitive and includes larger organizations with substantially greater resources than us. Many of our competitors are companies that commercialize and/or manufacture their required products at their own facilities. These competitors include major pharmaceutical companies, generic drug manufacturers and consumer health product companies who generally have substantially greater manufacturing, R&D, marketing and financial resources than us and, in some cases, have more geographically diversified international operations. We compete specifically with a number of different privately held contract manufacturing companies, including DPT Laboratories, Ltd. and Ei. Although this market is competitive, the competition is limited due to the need for specific expertise in topical formulations and cGMP facilities. We believe that we have the expertise required and that we will continue to create opportunities in this market by providing high quality, customer-oriented service, complemented by our contract development expertise in topical formulations.

### **Government Regulation and Regulatory Proceedings**

The R&D, manufacturing and marketing of our products are subject to extensive regulation by the FDA and by other federal, state and local entities, which regulate, among other things, R&D activities, testing, manufacturing, labeling, storage, record keeping, advertising and promotion of pharmaceutical and OTC products.

FDA approval is required before any dosage form of any drug product, including a generic equivalent of a previously approved drug product, can be marketed. All applications for FDA approval must contain information relating to product formulation, stability, manufacturing processes, packaging, labeling and quality control. Compliance with FDA's cGMP regulations is required at all times during the manufacture and processing of drugs. Such compliance requires considerable time and resources in the areas of production and quality control.

We are subject to the periodic inspection of our facilities, procedures and operations and/or the testing of our products by the FDA and other authorities, which conduct periodic inspections to ensure that our facilities remain in compliance with cGMP regulations. In addition, in connection with its review of our applications for new products, the FDA conducts pre-approval and post-approval reviews and plant inspections to determine whether our systems and processes comply with cGMP and other FDA regulations. Our last FDA inspections took place in February 2012 and December 2013.

The FDA may deny an ANDA if applicable regulatory criteria are not satisfied. The FDA may withdraw product approvals if compliance with regulatory standards is not maintained.

FDA policy and its stringent requirements have increased the time and expense involved in obtaining ANDA approvals and in complying with the FDA's cGMP standards. The ANDA approval process takes approximately 32 months but may at times take even longer. The FDA has implemented review processes early in an application review that may result in the FDA refusing to receive an application.

We are also subject to regulation under other federal, state and local regulations regarding work place safety, environmental protection and hazardous substance controls, among others.

Reimbursement legislation, such as Medicaid, Medicare, and other programs, governs reimbursement levels. All pharmaceutical manufacturers rebate to individual states a percentage of their revenues arising from Medicaid-reimbursed drug sales. Federal law requires that a pharmaceutical manufacturer, as a condition of having federal funds being made available to the states for the manufacturer's drugs under Medicaid and Medicare Part B, must enter into a rebate agreement to pay rebates to state Medicaid programs for the manufacturer's covered outpatient drugs that are dispensed to Medicaid beneficiaries and paid for by a state Medicaid program. The Centers for Medicare and Medicaid Services ("CMS") is responsible for administering the Medicaid rebate agreements between the federal government and pharmaceutical manufacturers. Rebates are due on the utilization of Medicaid managed care organizations, as well as under fee-for-service arrangements.

Drug manufacturers' Medicaid rebate agreements, which are between each manufacturer and the Secretary of Health and Human Services, provide that the drug manufacturer will remit rebates to each state Medicaid agency on a quarterly basis. Those rebates are based on pricing data reported by manufacturers to CMS, including Average Manufacturer Price ("AMP"), which is reported on a monthly and quarterly basis, and, in the case of innovator products, Best Price, which is reported on a quarterly basis.

Health reform legislation changed the definition of AMP effective the fourth quarter of calendar 2010. Pursuant to the same legislation, effective for rebate periods beginning with the first quarter of calendar 2010, the rebate formulas used to determine the minimum rebate amounts due are as follows: for noninnovator products, in general generic drugs marketed under ANDAs, the rebate amount is 13% of the AMP for the quarter; for innovator products, in general brand-name products marketed under NDAs, the rebate amount is the greater of 23.1% of the AMP for the quarter or the difference between such AMP and the Best Price for that same quarter. This rate is 17.1% for innovator drugs approved exclusively for pediatric indications, as well as for certain clotting factors. Manufacturers also pay an additional rebate on innovator drugs where price increases since launch has outpaced inflation.

In the United States, our sales are dependent upon the availability of coverage and reimbursement for our products from third-party payors, including federal and state programs such as Medicare and Medicaid, and private organizations such as commercial health insurance and managed care companies. Such third-party payors increasingly challenge the price of medical products and services and instituting cost containment measures to control or significantly influence the purchase of medical products and services. Over the past several years, the rising costs of providing health care services has triggered legislation to make certain changes to the way in which pharmaceuticals are covered and reimbursed, particularly by government programs. For instance, recent federal legislation and regulations have created a voluntary prescription drug benefit, Medicare Part D, revised the formula used to reimburse health care providers and physicians under Part B and imposed significant revisions to the Medicaid Drug Rebate Program. These changes have resulted in, and may continue to result in, coverage and reimbursement restrictions and increased rebate obligations by manufacturers. In addition, there continue to be legislative and regulatory proposals at the federal and state levels directed at containing or lowering the cost of health care. Examples of how limits on drug coverage and reimbursement in the United States may cause reduced payments for drugs in the future include:

changing Medicare reimbursement methodologies;

revising drug rebate calculations under the Medicaid program;

reforming drug importation laws;

fluctuating decisions on which drugs to include in formularies; and

requiring pre-approval of coverage for new or innovative drug therapies.

We cannot predict the likelihood or pace of such additional changes or whether there will not be significant legislative or regulatory reform impacting our products, nor can we predict with precision what effect such governmental measures would have if they were ultimately enacted into law. However, in general, we believe that legislative and regulatory reform activity likely will continue.

### **Environmental Matters**

Our operations are subject to a variety of environmental, health and safety laws and regulations, including those of the United States Environmental Protection Agency and equivalent state and local regulatory agencies. These laws and regulations govern, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety. Our manufacturing facility uses, in varying degrees, hazardous substances in its processes. Contamination at our facility can result and has resulted in liability to us, for which we have recorded appropriate reserves as needed. For example, two of the Company's facilities have undergone remediation of environmental contamination. See Note 14 to the Company's Consolidated Financial Statements.

### **Intellectual Property**

To compete effectively, we need to develop and maintain a proprietary position with regard to our own technology, product candidates and business. Our goal is to safeguard our trade secrets and know-how, attain, maintain and enforce patent protection for our product candidates, formulations, processes, methods and other proprietary technologies, and operate without infringing on the proprietary rights of others. We seek to obtain, where appropriate, the broadest intellectual property protection possible for our current product candidates and any future product candidates, proprietary information and proprietary technology. We seek to achieve this protection through a combination of contractual arrangements and patents.



We depend upon the skills, knowledge, experience and know-how of our management and R&D personnel, as well as that of our consultants, advisors and collaborators. To help protect our proprietary know-how, which is not patentable, and for inventions for which patents may be difficult to enforce, we currently rely and will in the future rely on confidentiality agreements to protect our interests. We require our employees, consultants, advisors and collaborators to enter into confidentiality agreements that prohibit the disclosure of confidential information to any other parties. We also require our employees and consultants to disclose and assign to use their ideas, developments, discoveries and inventions. We understand that these agreements may not provide us with adequate protection for our trade secrets, know-how, or other proprietary information in the event of any unauthorized use or disclosure.

We also seek to obtain patent protection when necessary and we understand that this may not provide us with complete protection against competitors who may attempt to circumvent our patents.

## **Facility and Operations**

Our executive administrative offices are located in Buena, New Jersey, in a 23,000 square foot facility built on 7.3 acres of land in 1995, which we own. This facility is used for production, product development, marketing and warehousing for our pharmaceutical, cosmeceutical and cosmetic products. Our manufacturing capabilities encompass a full suite of competencies including regulatory, quality assurance and in-house validation.

The facility is equipped to manufacture semi-solids, ointments, gels and liquids in solution form. The facility is also configured to provide flexibility in manufacturing. Pilot batches typically range from 30 kg to 250 kg, while commercial batches may range from 250 kg to 4,000 kg.

We operate our facility in accordance with GMP, utilizing the same high standards as our pharmaceutical customers. Our facility is registered with the FDA. We believe that our facility and equipment are in good condition, are well maintained and are able to operate at present levels. Our manufacturing operations are focused on regulatory compliance, continuous improvement, process standardization and excellence in quality and execution across the organization.

## **Employees**

On December 31, 2013, we had a total of 52 full-time employees. In addition, as the need arises, we occasionally utilize short-term, part-time employees who are paid on an hourly basis. In addition, we utilize temporary employees provided by a third party on a regular basis, primarily in our production department. We do not have a collective bargaining agreement with our employees and we believe that our employee relations are good.

**ITEM 1A.**

**RISK FACTORS**

Our current business and future results may be affected by a number of risks and uncertainties, including those described below. The risks and uncertainties described below are not the only risks and uncertainties we face. Additional risks and uncertainties not currently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business, results of operations and financial condition could suffer. The risks discussed below also include forward-looking statements and our actual results may differ substantially from those discussed in these forward-looking statements.

*Risks Related to our Business*

*We have a history of losses and cannot assure you that we will become profitable. As a result, we may have to cease operations and liquidate our business.*

Our expenses have exceeded our revenue in each of the last eight years, and no net income has been available to common stockholders during each of these years. As of December 31, 2013, our stockholders' equity was \$7.2 million and we had an accumulated deficit of \$44.8 million. Our future profitability depends on revenue exceeding expenses, but we cannot assure you that this will occur. If we do not become profitable or continue to raise external financing, we could be forced to curtail operations and sell or liquidate our business, and you could lose some or all of your investment.

*We face intense competition in the consumer products business.*

Our business competes with large, well-financed cosmetic, pharmaceutical and consumer products companies with development and marketing groups that are experienced in the industry and possess far greater resources than those available to us. There is no assurance that we can compete successfully against our competitors or that we can develop and market products that will be favorably received in the marketplace. In addition, certain of our customers that use our Novasome® lipid vesicles in their products may decide to reduce their purchases from us or shift their business to other technologies.



***Rapidly changing technologies and developments by our competitors may make our technologies and products obsolete.***

We expect to sublicense our technologies to third parties, which would manufacture and market products incorporating these technologies. However, if our competitors develop new and improved technologies that are superior to our technologies, our technologies could be less acceptable in the marketplace and our business could be harmed.

***The pharmaceutical industry in which we operate is intensely competitive. We are particularly subject to the risks of competition. For example, the competition we encounter may have a negative impact upon the prices we may charge for our products, the market share of our products and our revenue and profitability.***

The pharmaceutical industry in which we operate is intensely competitive. The competition which we encounter has an effect on our product prices, market share, revenue and profitability. Depending upon how we respond to this competition, its effect may be materially adverse to us. We compete with:

the original manufacturers of the brand-name equivalents of our generic products; and

other generic drug manufacturers.

Most of the products that we are developing are either generic drugs or products without patent protection. These drugs and products do not benefit from patent protection and are therefore more subject to the risk of competition than patented products. In addition, because many of our competitors have substantially greater financial, production and research and development resources, substantially larger sales and marketing organizations, and substantially greater name recognition than we have, we are particularly subject to the risks inherent in competing with them. For example, many of our competitors may be able to develop products and processes competitive with, or superior to, our own. Furthermore, we may not be able to successfully develop or introduce new products that are less costly than those of our competitors or offer purchasers of our products payment and other commercial terms as favorable as those offered by our competitors.



***As our competitors introduce their own generic equivalents of our generic pharmaceutical products, our revenues and gross margin from such products generally decline, often rapidly.***

Revenues and gross margin derived from generic pharmaceutical products often follow a pattern based on regulatory and competitive factors that we believe are unique to the generic pharmaceutical industry. As the patent(s) for a brand name product and the statutory marketing exclusivity period (if any) expires, the first generic manufacturer to receive regulatory approval for a generic equivalent of the product often is able to capture a substantial share of the market. However, as other generic manufacturers receive regulatory approvals for competing products, that market share, and the price of that product, will typically decline depending on several factors, including the number of competitors, the price of the brand product and the pricing strategy of the new competitors. We cannot provide assurance that we will be able to continue to develop such products or that the number of competitors with such products will not increase to such an extent that we may stop marketing a product for which we previously obtained approval, which may have a material adverse impact on our revenues and gross margin.

***We may need to raise additional capital that will be required to operate and grow our business, and we may not be able to raise capital on terms acceptable to us or at all.***

Operating our business and maintaining our growth efforts will require additional cash outlays and capital expenditures. If cash on hand and cash generated from operations are not sufficient to meet our cash requirements, we will need to seek additional capital, potentially through debt or equity financings, to fund our growth. We cannot assure you that we will be able to raise needed cash on terms acceptable to the Company, our significant stockholders, or at all. Financings may be on terms that are dilutive or potentially dilutive to our stockholders, and the prices at which new investors would be willing to purchase our securities may be lower than the current price per share of our common stock. The holders of new securities may also have rights, preferences or privileges which are senior to those of existing holders of common stock. If new sources of financing are required, but are insufficient or unavailable, we will be required to modify our growth and operating plans based on available funding, if any, which would harm our ability to grow our business or even stay in business.

***We rely on a limited number of customers for a large portion of our revenues.***

We depend on a limited number of customers for a large portion of our revenue. For the years ended December 31, 2013 and 2012, three of our customers accounted for 39% and two of our customers accounted for 54% of our revenue, respectively.

***Sales of our products may continue to be adversely affected by the continuing consolidation of our distribution network and the concentration of our customer base. The result of such developments could have a material adverse effect on our business, financial position and results of operations, and could cause the market value of our ordinary shares to decline.***

Our principal customers are wholesale drug distributors and major retail drug store chains. These customers comprise a significant part of the distribution network for pharmaceutical products in the U.S. This distribution network is continuing to undergo significant consolidation marked by mergers and acquisitions among wholesale distributors and the growth of large retail drug store chains. As a result, a small number of large wholesale distributors control a significant share of the market, and the number of independent drug stores and small drug store chains has decreased. We expect that consolidation of drug wholesalers and retailers will increase pricing and other competitive pressures on drug manufacturers. In addition, the Company generally does not enter into long-term supply agreements with its customers that would require them to purchase our products. The result of these developments may have a material adverse impact on our business, financial position and results of operations, and could cause the market value of our ordinary shares to decline.

***Lack of availability, issues with quality or significant increases in the cost of raw materials used in manufacturing our products could adversely impact our profit margins and operating results.***

Affordable high quality raw materials and packaging components are essential to our business due to the nature of the products we manufacture. Raw materials and packaging components are generally available from multiple suppliers. Supplies of certain raw materials, and finished goods purchased by us are limited, or are available from one or only a few suppliers. In these situations, increased prices, rationing and shortages can occur. In response to these problems we try to identify alternative materials or suppliers for such raw materials, and finished goods. FDA requirements for products approved through the ANDA or NDA process could substantially lengthen the approval of an alternate material source. Certain material shortages and approval of alternate sources could adversely affect our financial results. The rapid increase in cost of many raw materials from inflationary forces, such as increased energy costs, and our ability or inability to pass on these increases to our customers, could have a material impact on our financial results.

We maintain several single-source supplier relationships, either because alternative sources are not available or the relationship is advantageous due to regulatory, performance, quality, support, or price considerations. Unavailability or delivery delays of single-source components or products could adversely affect our ability to ship the related product in a timely manner. The effect of unavailability or delivery delays would be more severe if associated with our higher volume or more profitable products. Even where alternative sources of supply are available, qualifying the alternate suppliers and establishing reliable supplies could cost more or could result in delays and a loss of revenues. As a result, the loss of a single-source supplier could have a material adverse effect on our results of operations.

In addition, raw materials purchased from third parties, including those from foreign countries, may contain counterfeit ingredients or other adulterants. We maintain a strict program of verification and product testing throughout the ingredient sourcing and manufacturing process to identify potential counterfeit ingredients, adulterants and toxic substances. Nevertheless, discovery of previously unknown problems with the raw materials or product manufacturing processes or new data suggesting an unacceptable safety risk associated therewith, could result in a voluntary or mandatory withdrawal of the contaminated product from the marketplace, either temporarily or permanently. In addition, because regulatory authorities must generally approve raw material sources for pharmaceutical products, changes in raw material suppliers or the quality of their products may result in production delays or higher raw material costs. Also, any future recall or removal would result in additional costs to us, and may give rise to product liability or other litigation, either of which could have a material adverse effect on our operating results.

Our products, and the raw materials used to make those products, generally have limited shelf lives. Our inventory levels are based, in part, on expectations regarding future sales. We may experience build-ups in inventory if sales slow. Any significant shortfall in sales may result in higher inventory levels of raw materials and finished products,

thereby increasing the risk of inventory spoilage and corresponding inventory write-downs and write-offs, which may materially and adversely affect our results of operations. Additionally, labeling changes required for regulatory compliance could render packaging inventories obsolete. Cargo thefts and/or diversions and economically or maliciously motivated product tampering in store shelves may be experienced from time to time, causing unexpected shortages.

***Due to our dependence on a limited number of products, our business will be materially adversely affected if these products do not perform as well as expected.***

We expect to generate a significant portion of our total revenues and gross margin from the sale of a limited number of products. Any material adverse developments, including increased competition and supply shortages, with respect to the sale or use of our products and prospective products, or our failure to successfully introduce such products, could have a material adverse effect on our revenues and gross margin.

***We are subject to stringent regulatory requirements. Failure to adhere to such requirements could harm our business and results of operations.***

In the United States, pharmaceuticals are subject to rigorous FDA regulations. Any non-compliance with the regulatory guidelines may necessitate corrective action that may result in additional expenses and use of more of our resources.

We and our suppliers of raw materials are also subject to regulation under the Occupational Safety and Health Act, the Toxic Substances Control Act, the Resource Conservation and Recovery Act and other present and potential future federal, state or local regulations. Failure to adhere to such regulations, by either us or our suppliers, could harm our business and results of operations. In addition, our analytical department uses certain hazardous materials and chemicals in limited and controlled quantities. We have implemented safety procedures for handling and disposing of such materials, however, such procedures may not comply with the standards prescribed by federal, state and local regulations. Even if we follow such safety procedures for handling and disposing of hazardous materials and chemicals and such procedures comply with applicable law, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, we could be held liable for any damages and any such liability could exceed our resources.

Our operations and properties are also subject to a wide variety of increasingly complex and stringent federal, state and local environmental laws and regulations, including those governing the remediation of contaminated soil and groundwater. Such environmental laws may apply to conditions at properties and facilities presently or formerly owned or operated by us, as well as to conditions at properties at which wastes or other contamination attributable to us have been sent or otherwise come to be located. Two of our facilities are currently undergoing remediation of environmental contamination. The total estimated costs for the clean-up and remediation is \$739,000, of which approximately \$6,000 remains accrued as of December 31, 2013. Based on information provided to us from our environmental consultants and what is known to date, we believe the reserves are sufficient for the remaining remediation of the environmental contamination. There is a possibility, however, that the remediation costs may exceed our estimates. In addition, we can give no assurance that the future cost of compliance with existing environmental laws will not give rise to additional significant expenditures or liabilities that would be material to us. Future events, such as new information, changes in existing environmental laws or their interpretation, and more vigorous enforcement policies of federal, state or local regulatory agencies, may have a material adverse effect on our business, financial condition and results of operations.

***We are subject to extensive government regulation that increases our costs and could prevent us from marketing or selling our products.***

The manufacturing, processing, formulation, packaging, labeling, testing, storing, distributing, marketing, advertising and sale of our products is subject to extensive regulation by one or more U.S. agencies, including the FDA, the Federal Trade Commission and the Consumer Products Safety Commission, as well as by several state and local agencies in localities where the Company's products are stored, distributed or sold. In addition, we manufacture and market certain of our products in accordance with standards set by organizations, such as the United States Pharmacopeial Conventions, or the USP.

The FDA regulates the testing, manufacture, labeling, marketing and sale of pharmaceutical products. Approval by the FDA is generally required before any new drug or the generic equivalent to any previously approved drug may be marketed or sold in the United States. In order to receive approval from the FDA for our product candidates that are generic versions of brand-name drugs, we intend to use the Abbreviated New Drug Application, or ANDA, process and thus demonstrate to the FDA that each generic product candidate is bioequivalent to a drug previously approved by the FDA through the new drug approval process, known as an innovator, or brand-name reference drug. Bioequivalency may be demonstrated by comparing the generic product to the innovator drug product in dosage form, strength, route of administration, quality, performance characteristics and intended use. However, if the FDA determines that an ANDA for a generic drug product is not adequate to support approval, it could deny our application or request additional information, including preclinical and clinical trials, which could delay approval of the product and impair our ability to compete with other versions of the generic drug product.

If our product candidates receive FDA approval through the ANDA process, the labeling claims and marketing statements that we can make for our generic drugs are generally limited by statutes and regulations and by the claims made in the brand-name product's label. In addition, following regulatory approval, the labeling, packaging, adverse event reporting, storage, advertising and promotion for the product will be subject to extensive and ongoing regulatory requirements. As a manufacturer of pharmaceutical products distributed in the United States, we must also comply with cGMPs, which include requirements related to production processes, quality control and assurance and recordkeeping. Our manufacturing facilities and procedures and those of our suppliers are subject to periodic inspection by the FDA and foreign regulatory agencies. Any material deviations from cGMPs or other applicable standards identified during such inspections may result in enforcement actions, including delaying or preventing new product approvals, a delay or suspension in manufacturing operations, consent decrees or civil or criminal penalties. Further, discovery of previously unknown problems with a product or manufacturer may result in restrictions or sanctions, including withdrawal of the product from the market.



***We operate in a highly regulated industry. An inability to meet current or future regulatory requirements in connection with existing or future ANDAs could have a material adverse effect on our business, financial position and operating results.***

The design, development and marketing of pharmaceutical compounds, on which our success depends, are intensely regulated by governmental regulatory agencies, in particular the FDA. Non-compliance with applicable requirements can result in fines and other judicially imposed sanctions, including product seizures, injunction actions and criminal prosecution based on products or manufacturing practices that violate statutory requirements. In addition, administrative remedies can involve voluntary withdrawal of products, as well as the refusal of the FDA to approve ANDAs. The FDA also has the authority to withdraw approval of drugs in accordance with statutory due process procedures. Before a pharmaceutical product may be marketed, it must be approved by the FDA by an ANDA, of which no assurance can be provided. If the FDA does not approve our existing or future ANDAs, it would result in substantial additional costs, delay or suspension of the commercialization of our products. If we are unable to timely commercialize our existing or future products, it could have a material adverse effect on our business, financial position and operating results.

***We may become subject to federal and state false claims litigation brought by private individuals and the government.***

We are subject to state and federal laws that govern the submission of claims for reimbursement. The Federal False Claims Act ( FFCA ), also known as Qui Tam, imposes civil liability and criminal fines on individuals or entities that knowingly submit, or cause to be submitted, false or fraudulent claims for payment to the government. Violations of the FFCA and other similar laws may result in criminal fines, imprisonment, and civil penalties for each false claim submitted and exclusion from federally funded health care programs, including Medicare and Medicaid. The FFCA also allows private individuals to bring a suit on behalf of the government against an individual or entity for violations of the FFCA. These suits, also known as Qui Tam actions, may be brought by, with only a few exceptions, any private citizen who has material information of a false claim that has not yet been previously disclosed. These suits have increased significantly in recent years because the FFCA allows an individual to share in any amounts paid to the federal government in fines or settlement as a result of a successful Qui Tam action. If our past or present operations are found to be in violation of any of such laws or any other governmental regulations that may apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines, exclusion from federal health care programs, and/or the curtailment or restructuring of our operations. Any penalties, damages, fines, curtailment, or restructuring of our operations could adversely affect our ability to operate our business and our financial results, action against us for violation of these laws, even if we successfully defend against them, it could cause us to incur significant legal expenses and divert our management's attention from the operation of our business.

***Product recalls could harm our business.***

Product recalls or product field alerts may be issued at our discretion or at the discretion of the FDA, other governmental agencies or other companies having regulatory authority for pharmaceutical product sales. From time to time, we may recall products for various reasons, including failure of our products to maintain their stability through their expiration dates. Any recall or product field alert has the potential of damaging the reputation of the product or our reputation. Any significant recalls could materially affect our sales. In these cases, our business, financial condition, results of operations and cash flows could be materially adversely affected.

***We are susceptible to product liability claims that may not be covered by insurance and could require us to pay substantial sums.***

We face the risk of loss resulting from, and adverse publicity associated with, product liability lawsuits, whether or not such claims are valid. We may not be able to avoid such claims. In addition, our product liability insurance may not be adequate to cover such claims and we may not be able to obtain adequate insurance coverage in the future at acceptable costs. A successful product liability claim that exceeds our policy limits could require us to pay substantial sums. In addition, product liability coverage for pharmaceutical companies is becoming more expensive and increasingly difficult to obtain and, as a result, we may not be able to obtain the type and amount of coverage we desire or to maintain our current coverage.

***The manufacture and storage of pharmaceutical and cosmetics products are subject to inherent risk.***

Because chemical ingredients are used in the manufacture of our products and due to the nature of the manufacturing process itself, there is a risk of incurring liability for damages caused by or during the storage or manufacture of both the chemical ingredients and the finished products. Although we have never incurred any material liability for damages of that nature, we may be subject to liability in the future. In addition, while we believe our insurance coverage is adequate, it is possible that a successful claim would exceed our coverage, requiring us to pay a substantial sum.

***The failure to obtain, maintain or protect patents, trade secrets, know-how and other intellectual property could impact our ability to compete effectively.***

To compete effectively, we need to develop and maintain a proprietary position with regard to our own technology, products and business. We rely on a combination of patents, trade secrets, proprietary know-how and other intellectual property to protect our proprietary technology and rights. We own nine patents and through a license agreement we have obtained the use of patents relating to the Novasome® technology for specified uses. We also maintain a number of trade secrets, know-how and other intellectual property.

The risks and uncertainties that we face with respect to patents and other proprietary rights include the following:

the pending patent applications we have filed or may file, or to which we have exclusive rights, may not result in issued patents, or may take longer than we expect to result in issued patents;

changes in U.S. patent laws may adversely affect our ability to obtain or maintain our patent protection;

we may be subject to interference proceedings;

the claims of any patents that are issued may not provide meaningful protection;

we may not be able to develop additional proprietary technologies that are patentable;

the patents licensed or issued to us or our collaborators may not provide a competitive advantage;

other companies may challenge patents licensed or issued to us or our collaborators;

other companies may independently develop similar or alternative technologies, or duplicate our technology;

other companies may design around technologies we have licensed or developed; and

enforcement of patents is complex, uncertain and expensive.

If we are unable to effectively enforce our proprietary rights, or if we are found to infringe the rights of others, we may be in breach of our license agreements with our partners.

Our success also depends upon trade secrets, proprietary know-how and the skills, knowledge and experience of our personnel. As a result, we require our employees, consultants, advisors, and collaborators to enter into confidentiality agreements that prohibit the disclosure of confidential information to any other parties. We also require our employees and consultants to disclose and assign to us their ideas, developments, discoveries, and inventions. These agreements may not, however, provide adequate protection for our trade secrets, know-how, or other proprietary information in the event of any unauthorized use or disclosure. If any material trade secret or proprietary know-how were to be disclosed to or independently developed by a competitor, our competitive position may be materially harmed.

***Our product offerings and our customers' products may infringe on the intellectual property rights of third parties.***

From time to time, third parties have asserted intellectual property infringement claims against us and our customers and there can be no assurance that third parties will not assert infringement claims against either us or our customers in the future. While we believe that our product offerings do not infringe in any material respect upon proprietary rights of other parties and/or that meritorious defenses would exist with respect to any assertions to the contrary, there can be no assurance that we would not be found to infringe on the proprietary rights of others.

Patent applications in the U.S. and some foreign countries are generally not publicly disclosed until the patent is issued or published, and we may not be aware of currently filed patent applications that relate to our offerings or processes. If patents later issue on these applications, we may be found liable for subsequent infringement. There has been substantial litigation in the pharmaceutical and biotechnology industries with respect to the manufacture, use and sale of products and processes that are the subject of conflicting patent rights.

Any claims that our product offerings or processes infringe these rights, regardless of their merit or resolution, could be costly and may divert the efforts and attention of our management and technical personnel. We may not prevail in such proceedings given the complex technical issues and inherent uncertainties in intellectual property litigation. If such proceedings result in an adverse outcome, we could, among other things, be required to:

pay damages in the form of lost profits and/or a reasonable royalty for any infringement;

pay substantial damages (potentially treble damages in the U.S. if any such infringement is found to be willful);

pay attorney fees of a prevailing party, if the case is found to be exceptional;

cease the manufacture, use or sale of the infringing offerings or processes;

discontinue the use of the infringing technology;

expend significant resources to design around patented technology and develop non-infringing technology; and

license patented technology from the third party claiming infringement, which license may not be available on commercially reasonable terms, or may not be available at all.

In addition, our customers' products may be subject to claims of intellectual property infringement and such claims could materially affect our business if their products cease to be manufactured and they have to discontinue the use of the infringing technology which we may provide. Further, depending on the particular circumstances of any given claim, it may be the case that we may be responsible for indemnifying our customers for a claim of intellectual property infringement.

If we were to assert any of our own intellectual property against third parties and the third parties were found not to infringe our intellectual property or our intellectual property was found to be invalid, and/or unenforceable, we would lose the opportunity to leverage our own intellectual property, for example, through licensing of our technology to others, collection of damages and/or royalty payments based upon successful assertion of our intellectual property rights or market exclusivity via enjoining others from practicing the technology at issue.

Any of the foregoing could affect our ability to compete or have a material adverse effect on our business, financial condition and results of operations.

***The expiration of certain patents related to the Novasome® technology could negatively impact our ability to generate income from the Novasome products.***

We license certain patents related to the Novasome® technology platform pursuant to a license agreement. Many of the patents under this license have expired and more will expire before this license terminates on December 11, 2015. The loss of patent protection could allow additional competition. To the extent such competition develops, it could negatively impact the income we generate from the Novasome® technology platform.

***Economic conditions could severely impact us.***

Current economic conditions may cause a decline in business and consumer spending which could adversely affect our business and financial performance. Our operating results are impacted by the health of the North American economies. Our business and financial performance, including collection of our accounts receivable, realization of inventory, recoverability of assets including investments, may be adversely affected by current and future economic conditions, such as a reduction in the availability of credit, financial market volatility and recession.





***Adverse conditions in the economy and disruption of financial markets could negatively impact our customers and therefore our results of operations.***

An economic downturn in the businesses or geographic areas in which we sell our products could reduce demand for these products and result in a decrease in sales volume that could have a negative impact on our results of operations. Volatility and disruption of financial markets could limit our customers' ability to obtain adequate financing or credit to purchase and pay for our products in a timely manner, or to maintain operations, and result in a decrease in sales volume that could have a negative impact on our results of operations. Additionally, economic conditions and market turbulence may also impact our suppliers causing them to be unable to supply in a timely manner sufficient quantities of product components, thereby impairing our ability to manufacture on schedule and at commercially reasonable costs.

If the U.S. economy rapidly contracts or expands, we may have difficulty quickly scaling our operations in response, which may negatively impact our business and financial position.

***If we are unable to hire additional qualified personnel, our ability to grow our business may be harmed.***

We will need to hire additional qualified personnel with expertise in nonclinical testing, government regulation, formulation and manufacturing, sales and marketing and finance. We compete for qualified individuals with numerous pharmaceutical and consumer products companies, universities and other research institutions. Competition for such individuals is intense, and we cannot be certain that our search for such personnel will be successful. Attracting and retaining qualified personnel will be critical to our success.

***Our ability to market products successfully depends, in part, upon the acceptance of the products not only by consumers, but also by independent third-parties.***

Our ability to market generic pharmaceutical products successfully depends, in part, on the acceptance of the products by independent third-parties (including pharmacies, government formularies, managed care providers, insurance companies and retailers), as well as patients. In addition, unanticipated side effects or unfavorable publicity concerning any of our products, or any brand-name product of which our generic product is the equivalent, could have an adverse effect on our ability to achieve acceptance by managed care providers, pharmacies and other retailers, customers and patients.

***Risks Related to Our Securities***

***Shares of our common stock are relatively illiquid which may affect the trading price of our common stock.***

For the twelve months ended December 31, 2013, the average daily trading volume of our shares of common stock on the NYSE MKT was approximately 78,000 shares. As a result of our relatively small public float, our shares of common stock may be less liquid than the stock of companies with broader public ownership. Among other things, trading of a relatively small volume of our shares of common stock may have a greater impact on the trading price for our shares than would be the case if our public float were larger.

***We have not paid dividends to our common stockholders in the past nor do we expect to pay dividends in the foreseeable future, and any return on investment may be limited to potential future appreciation on the value of our common stock.***

We currently intend to retain any future earnings to support the development and expansion of our business and do not anticipate paying cash dividends in the foreseeable future. Our payment of any future dividends will be at the discretion of our Board of Directors after taking into account various factors, including without limitation, our financial condition, operating results, cash needs, growth plans and the terms of any credit agreements that we may be a party to at the time. To the extent we do not pay dividends, our stock may be less valuable because a return on investment will only occur if and to the extent our stock price appreciates, which may never occur. In addition, investors must rely on sales of their common stock after price appreciation as the only way to realize their investment, and if the price of our stock does not appreciate, then there will be no return on investment. Investors seeking cash dividends should not purchase our common stock.

***If we fail to comply with the reporting obligations of the Securities Exchange Act of 1934 (the Exchange Act ) and Section 404 of the Sarbanes-Oxley Act of 2002, or if we fail to achieve and maintain adequate disclosure controls and procedures and internal control over financial reporting, our business results of operations and financial condition, and investors' confidence in us, could be materially adversely affected.***

As a public company, we are required to comply with the periodic reporting obligations of the Exchange Act including preparing annual reports, quarterly reports and current reports. Our failure to prepare and disclose this information in a timely manner could subject us to penalties under federal securities laws, expose us to lawsuits and restrict our ability to access financing. In addition, we are required under applicable law and regulations to integrate our systems of disclosure controls and procedures and internal control over financial reporting. Our management assessed our existing disclosure controls and procedures as of December 31, 2013 and December 31, 2012, and our management concluded that our disclosure controls and procedures were effective as of such times.

If we fail to achieve and maintain the adequacy of our disclosure controls and procedures and internal control over financial reporting, we may not be able to ensure that we can conclude that we have effective disclosure controls and procedures and internal control over financial reporting in accordance with the Sarbanes-Oxley Act of 2002. Moreover, effective disclosure controls and procedures and internal control over financial reporting are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, our failure to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 on a timely basis could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our common stock.

***If we fail to meet the continued listing standards of the NYSE MKT our common stock could be delisted and our liquidity and stock price could suffer.***

Our common stock is listed on the NYSE MKT, a national securities exchange, which imposes continued listing requirements with respect to listed shares. If we fail to meet the continued listing standards of the NYSE MKT, our common stock could be delisted and our stock price could suffer. A delisting of our shares of common stock could negatively impact us by further reducing the liquidity and market price of our shares of common stock and the number of investors willing to hold or acquire our shares of common stock, which could negatively impact our ability to raise equity financing.

***Our principal stockholders, directors and executive officers own a significant percentage of our stock and will be able to exercise significant influence over our affairs.***

Our current principal stockholders, directors and executive officers beneficially own approximately 67.3% of our outstanding capital stock entitled to vote. As a result, these stockholders, if acting together, would be able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. They may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock. If such stockholders sold a significant amount of stock it could have an adverse effect on the price of the stock.

***Due to the concentration of common stock owned by significant stockholders, the sale of such stock might adversely affect the price of our common stock.***

Our largest stockholders own shares of common stock that have been registered for resale under the Securities Act of 1933, as amended. The sale of such stock, depending on the interplay of numerous factors, including, without limitation, the method and timing of the sales, could substantially depress the value of the Company's common stock.

***Our stock price is, and we expect it to remain, volatile and subject to wide fluctuations, which may make it difficult for stockholders to sell shares of common stock at or above the price for which they were acquired.***

Our stock price is, and we expect it to remain, volatile, which could limit investors' ability to sell stock at a profit. During the last two fiscal years, our stock price has closed at a low of \$0.94 in the second quarter of 2012 and a high of \$3.29 in the fourth quarter of 2013. The volatile price of our stock makes it difficult for investors to predict the value of their investment, to sell shares at a profit at any given time, or to plan purchases and sales in advance. A variety of factors may affect the market price of our common stock. These include, but are not limited to:

publicity regarding actual or potential clinical results relating to products under development by our competitors or us;

delay or failure in initiating, completing or analyzing nonclinical or clinical trials or the unsatisfactory design or results of these trials;

achievement or rejection of regulatory approvals by our competitors or us;

announcements of technological innovations or new commercial products by our competitors or us;

developments concerning proprietary rights, including patents;

developments concerning our collaborations;

regulatory developments in the U.S. and foreign countries;

economic or other crises, especially given the recent financial deterioration in the markets in which we compete, and other external factors;

stock market price and volume fluctuations of other publicly traded companies and, in particular, those that are in the cosmetic, pharmaceutical and consumer products industry;

actual or anticipated sales of our common stock, including sales by our directors, officers or significant stockholders;

period-to-period fluctuations in our revenues and other results of operations;

speculation about our business in the press or the investment community;

changes in financial estimates by us or by any securities analysts who might cover our stock; and

sales of our common stock, including sales by our significant holders.

In the past, securities class action litigation has often been instituted against companies following periods of volatility in their stock price. This type of litigation, even if it does not result in liability for us, could result in substantial costs to us and divert management's attention and resources.

#### **ITEM 1B.**

#### **UNRESOLVED STAFF COMMENTS**

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the Exchange Act), and are not required to provide the information required under this item.

#### **ITEM 2.**

#### **PROPERTIES**

The Company's executive administrative offices are located in Buena, New Jersey, in a 23,000 square foot facility built on 7.3 acres of land in 1995, which the Company owns. This facility is also used for production, product development, marketing and warehousing for the Company's own generic prescription pharmaceutical products and pharmaceutical, cosmeceutical and cosmetic products for their customers. We believe this facility is in good operating condition for adequately serving our needs. The Company also owns four acres of land adjacent to its main facility that can be used for future expansion.

#### **ITEM 3.**

#### **LEGAL PROCEEDINGS**

We are involved from time to time in claims which arise in the ordinary course of business. In the opinion of management, we have made adequate provision for potential liabilities, if any, arising from any such matters. However, litigation is inherently unpredictable, and the costs and other effects of pending or future litigation, governmental investigations, legal and administrative cases and proceedings (whether civil or criminal), settlements, judgments and investigations, claims and changes in any such matters, and developments or assertions by or against us relating to intellectual property rights and intellectual property licenses, could have a material adverse effect on our business, financial condition and operating results.

On December 19, 2013, we filed a complaint in the United States District Court for the District of Delaware against Mallinckrodt LLC, Mallinckrodt, Inc. and Nuvo Research Inc. (collectively, Mallinckrodt ) seeking a declaration of non-infringement of United States Patent Nos. 8,217,078 and 8,546,450 so that we can bring our generic diclofenac sodium topical solution 1.5% to market at the earliest possible date under applicable statutory and FDA regulatory provisions.

On January 10, 2014, Mallinckrodt filed an answer and counterclaim alleging that IGI Laboratories, Inc. infringes the patents at issue. On January 28, 2014, we filed a motion to dismiss Mallinckrodt s counterclaim and, on March 5, 2014, Mallinckrodt filed an opposition to such motion. The court has not yet rendered a decision. We believe the complaint has merit and we intend to continue to pursue Mallinckrodt. Based on the early stage of this complaint and counterclaim, we are unable to predict the outcome.

#### **ITEM 4.**

#### **MINE SAFETY DISCLOSURES**

Not Applicable.

## PART II

### ITEM 5.

#### MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The principal market for the Company's Common Stock is the NYSE MKT (symbol: IGI ).

The following table sets forth the range of high and low closing sales prices for our shares of common stock, as reported by the NYSE MKT for the periods indicated:

	<b><u>High</u></b>	<b><u>Low</u></b>
<b><u>2013</u></b>		
First quarter	\$1.88	\$1.00
Second quarter	2.25	1.32
Third quarter	2.28	1.24
Fourth quarter	3.29	1.82
<b><u>2012</u></b>		
First quarter	\$1.34	\$1.02
Second quarter	1.12	0.94
Third quarter	1.48	0.98
Fourth quarter	1.30	0.98

#### Stockholders

The approximate number of holders of record of the Company's shares of common stock outstanding at March 25, 2014 was 492 (not including stockholders for whom shares are held in a nominee or street name).

#### Dividends



The Company has not paid cash dividends to its common stockholders since inception and does not intend to pay cash dividends on its common stock in the foreseeable future. The Company currently intends to retain earnings, if any, to finance growth of the Company.

**Unregistered Sales of Securities**

None.

**Issuer Purchases of Equity Securities**

None.

**ITEM 6.**

**SELECTED FINANCIAL DATA**

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the Exchange Act ) and are not required to provide the information required under this item.

**ITEM 7.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

**Forward-Looking Statements**

This Management's Discussion and Analysis of Financial Condition and Results of Operation section and other sections of this Annual Report on Form 10-K contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about the industry and markets in which the Company operates and on management's beliefs and assumptions. In addition, other written or oral statements, which constitute forward-looking statements, may be made by or on behalf of the Company. Words such as expects, anticipates, intends, plans, believes, seeks, estimates, variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance, and involve certain risks, uncertainties and assumptions, which are difficult to predict. (See Item 1A: Risk Factors above.) Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

**Company Overview**

*Strategic Overview*

IGI Laboratories is a developer, manufacturer, and marketer of topical formulations. Our goal is to become a leader in the generic topical pharmaceutical market. Under our IGI label, we sell generic topical pharmaceutical products that are bioequivalent to their brand name counterparts. We also provide development, formulation, and manufacturing services to the pharmaceutical, over-the-counter (OTC), and cosmetic markets.

Our strategy is based on two initiatives:

Manufacturing, developing, and marketing a portfolio of generic pharmaceutical products in our own label in topical dosage forms; and,

Increasing our current contract manufacturing and development business.

In addition, we will look to create unique opportunities through the acquisition of additional intellectual property, and the expansion of the use of our existing intellectual property, including our licensed Novasome® technology.

In December, 2012, we completed the implementation of our commercial infrastructure and launched our first generic topical pharmaceutical products under the IGI label. We have filed fourteen Abbreviated New Drug Applications, or ANDAs, with the United States Food and Drug Administration, or FDA for additional pharmaceutical products. We filed one application in September 2010, January 2011 and December 2011, we filed two applications in November 2011, two applications in June 2012, one in November 2012, one in January 2013, April 2013, September 2013, November 2013 and one in March 2014. All of the submissions are for generic topical prescription drugs. On March 12, 2014, the Company received its first approval from the FDA for an ANDA. The FDA has approved IGI's application for lidocaine hydrochloride USP 4% topical solution. We will continue to expand our presence in the generic topical pharmaceutical market through the filing of additional ANDAs with the FDA and the subsequent launch of products as these applications are approved. Our target is to file ten ANDAs in 2014 through our internal research and development program. We will also seek to license or acquire further products, intellectual property, or ANDAs to expand our portfolio. On February 1, 2013, we acquired assets and intellectual property, including an ANDA, for econazole nitrate cream 1%.

IGI also develops, manufactures, fills, and packages topical semi-solid and liquid products for branded and generic pharmaceutical customers as well as the OTC and cosmetic markets. These products are used in a wide range of applications from cosmetics and cosmeceuticals to the prescription treatment of conditions like dermatitis, psoriasis, and eczema.

IGI has structured a new management team to implement this plan, including a recent President and CEO, director of business development, director of operations and development and a manager of national accounts to head up the sales efforts for the newly launched IGI label products. The team brings a wealth of experience in the generic pharmaceutical industry to IGI. IGI's facilities and manufacturing equipment have been designed to produce topical and liquid products and support the Company's target prescription dosage forms.

Contract manufacturing services will continue to be crucial to IGI's success. The customer base for these services is pharmaceutical companies as well as cosmetic, cosmeceutical, and OTC product marketers who require product development/manufacturing support. This is a highly-competitive market with a number of larger, greater-resourced companies offering similar services. IGI looks to create niche opportunities for itself by providing high quality, customer-oriented service.

IGI has exclusive rights for the use of Novasome® technology in topical formulations and intends to pursue collaboration opportunities with established pharmaceutical companies seeking to develop topical products with unique properties. In addition, the Company will explore line extension opportunities through innovative packaging or alternate dosage forms of existing pharmaceutical molecules.

## Results of Operations

### *Fiscal Year 2013 Compared to Fiscal Year 2012*

We had a net loss of \$84,000 in 2013 compared to \$3,927,000 in 2012. Net loss applicable to common stockholders was \$1,392,000 or (\$0.03) per share in 2013 and \$3,927,000, or \$(0.10) per share in 2012:

### **Revenues (in thousands):**

Components of Revenue:	Year Ended December 31,		Increase/(Decrease)	
	2013	2012	\$	%
<b>Product sales</b>	\$ 16,981	\$ 6,545	\$ 10,436	159 %
<b>Research and development income</b>	1,094	1,931	(837)	(43)%
<b>Licensing, royalty, and other income</b>	149	87	62	71 %
<b>Total Revenues</b>	\$ 18,224	\$ 8,563	\$ 9,661	113 %

The increase in product sales for the year ended December 31, 2013 as compared to the same period in 2012 was primarily due to the launch of our own generic pharmaceutical product line, in addition to increased product sales to five of our pharmaceutical customers and one of our cosmetic customers, which was only partially offset by decreased sales to one of our pharmaceutical customers. Research and development income will not be consistent and will vary, from period to period, depending on the required timeline of each development project. The decrease in research and

development income during 2013 as compared to the same period in 2012 is attributable primarily to three new customer relationships with pharmaceutical partners established at the end of 2011 and the beginning of 2012. We completed several site transfers, formulation services, 510 (k) submissions for medical devices and filing of two ANDAs for these customers in 2012. In December 2013, we executed a license, development, supply and marketing agreement with a large multi-national pharmaceutical company under which we filed an ANDA in December 2013, and recorded research and development income in accordance with the agreement. Licensing, royalty and other revenue increased slightly due to an increase in other revenue while licensing and royalty revenue remained the same.

**Costs and expenses (in thousands):**

	Year Ended December 31,		Increase/(Decrease)	
	2013	2012	\$	%
<b>Cost of sales</b>	\$ 12,079	\$ 5,787	\$ 6,292	109 %
<b>Selling, general and administrative</b>	3,484	3,078	406	13 %
<b>Product development and research</b>	2,743	2,834	(91)	(3)%
<b>Totals costs and expenditures</b>	\$ 18,306	\$ 11,699	\$ 6,607	56 %

Cost of sales increased for the year ended December 31, 2013 as a result of the increase in total revenue. Cost of sales as a percentage of total revenue was 66% for the year ended December 31, 2013 as compared to 68% for 2012. The decrease in cost of sales as a percentage of product sales for 2013 was attributable to increased revenue from the launch of our first four IGI label products, which have higher margins, and a shift in the mix of our product sales to include greater higher margin pharmaceutical products. During 2013, approximately 61% of our revenue from contract and formulation services came from pharmaceutical customers as compared to 48% in 2012. Our research and development income results primarily from services rendered under contractual agreements, and therefore cost of sales as a percentage of our research and development income is relatively low. Consistent with our strategy, we expect cost of sales as a percentage of total revenue to decline over time.

Selling, general and administrative expenses for the year ended December 31, 2013 increased by \$406,000 as compared to the same period in 2012 as a result of increases in salaries, bonuses and employee related costs of \$444,000, an increase of \$30,000 in professional fees, an increase of \$156,000 in the expense from the issuance of stock based compensation related to options and restricted stock, amortization of product acquisition costs of \$60,000. These increases were only partially offset by a decrease as a result of the severance agreement with our former President and CEO of \$150,000 in 2012, a decrease of \$214,000 in recruiting fees and a decrease of \$35,000 in commissions.

Product development and research expenses for the year ended December 31, 2013 decreased by \$91,000 as compared to the same period in 2012. Consistent with our strategy to expand our portfolio of generic prescription topical pharmaceutical products, we increased headcount, which resulted in an increase of \$226,000 in salaries and employee related costs. This increase was partially offset by a decrease of \$326,000 in spending on clinical studies, outside testing, pilot batch expense and supplies.

**Interest Expense and Other Income (Expense), net (in thousands):**

	Year Ended December 31,		Increase/(Decrease)	
	2013	2012	\$	%
<b>Interest Expense and other income (expense) net</b>	\$ (199)	\$ (975)	\$ (776)	(80)%

Interest expense decreased for the year ended December 31, 2013 as compared to the same period in 2012 primarily due to the inclusion in 2012 of approximately \$848,000 of amortization of debt issuance costs related to the Note Payable - Related Party that was paid in full and terminated on August 31, 2012. In addition to the lower interest rate on the Note Payable - Bank (see Note 6 to the Company's Consolidated Financial Statements) that was outstanding for 2013 as compared to the interest rate on the Notes Payable that was outstanding in the comparable period in 2012, which was partially offset by the increase in Note payable in 2013.

We also recorded a tax benefit of \$197,000 in 2013 and \$184,000 in 2012 as a result of a sale of a portion of the Company's state tax operating loss carry forwards to a third party, pursuant to a program run by the State of New Jersey. There can be no assurance we will continue or be able to continue to sell these operating loss carry forwards.

**Net loss:**

	Year Ended December 31,		Increase/(Decrease)	
	2013	2012	\$	%
<b>Net loss</b>	\$ (84)	\$ (3,927)	\$ (3,843)	(98)%

The decrease in net loss for the year ended December 31, 2013 as compared to the same period in 2012 is due to the increase in revenues partially offset by the increases in costs and expenses noted above.

**Net loss attributable to common stockholders (in thousands, except per share numbers):**

	Year Ended December 31,		Increase/(Decrease)	
	2013	2012	\$	%
<b>Net loss attributable to common stockholders</b>	\$ (1,392)	\$ (3,927)	\$ (2,535)	(65)%
<b>Net loss per share</b>	\$ (0.03)	\$ (0.10)	\$ (0.07)	(70)%

The decrease in net loss attributable to common stockholders for the year ended December 31, 2013 as compared to the same period in 2012 is due to the increase in revenues partially offset by the increases in costs and expenses noted above, which was partially offset by the preferred stock dividend recorded on December 6, 2013, in connection with the mandatory conversion of our Series C Preferred Common Stock. This dividend of \$1,308,000 was recorded upon conversion of our Series C preferred stock into common stock.

## Liquidity and Capital Resources

The Company's business operations have been primarily funded over the past three years through private placements of our capital stock. In 2012, we entered into a new \$3 million line of credit, which we expanded to \$5 million in December 2013, after our compliance with certain covenants contained in the loan and security agreement related to the line of credit. To date we have drawn down \$3 million of this facility. We may require additional funding and this funding will depend, in part, on the timing and structure of potential business arrangements. If necessary, we may continue to seek to raise additional capital through the sale of our equity or through a strategic alliance with a third party. There may also be additional acquisition and growth opportunities that may require external financing. There can be no assurance that such financing will be available on terms acceptable to us, or at all. We believe that our existing capital resources including the recently completed line of credit and private placement detailed below will be sufficient to support our current business plan and operations beyond March 2015.

Our operating activities used \$0.6 million and \$2.4 million of cash during the years ended December 31, 2013 and 2012, respectively. The use of cash for the years ended December 31, 2013 and 2012 was substantially a result of the net loss for the period offset by non-cash expense items. Our net loss for the year ended December 31, 2013 was \$0.1 million, which included \$2.7 million of research and development costs.

Our investing activities used \$2.1 million of cash in the year ended December 31, 2013 compared to \$0.3M of cash used in investing activities in the comparable period of 2012. In 2013, we used \$1.8 million to acquire econazole nitrate cream 1%, which we launched in September 2013. The remaining funds used in both years were for additional equipment and related services for the analytical and compounding area, packaging and filling lines.

Our financing activities generated \$2.3 million of cash in the years ended December 31, 2013 and 2012. The cash provided for the year ended December 31, 2013 was primarily related to the \$2.0 million we drew down on our existing credit line in 2013. The cash provided for the year ended December 31, 2012 was primarily the proceeds of the sale of our treasury stock as more fully described in Note 17 to our Consolidated Financial Statements, in addition to the \$1.0 million of proceeds from the drawdown of our credit facility, which was offset by the repayment of the Note Payable - Related Party of \$0.5 million as a result of the termination of the existing credit facility.

Our principal sources of liquidity are cash and cash equivalents of approximately \$2.1 million at December 31, 2013, the \$2.0 million available on the \$5.0 million credit facility and future cash from operations. We had working capital of \$5.3 million at December 31, 2013.



## Recent Pronouncements

In July 2013, the FASB issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When A Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists ( ASU 2013-11 ), which provides guidance on the presentation of unrecognized tax benefits when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. The amendments in this update are effective for fiscal years (and interim periods within those years) beginning after December 15, 2013. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Company does not expect ASU 2013-11 to have a material effect on its financial condition, results of operation or cash flows. This update will be effective for the Company for the year beginning January 1, 2014.

## Critical Accounting Policies and Estimates

The SEC defines critical accounting policies as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

Our significant accounting policies are described in Note 1 to our Consolidated Financial Statements. Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. However, the following policies could be deemed to be critical within the SEC definition.

### Revenue Recognition

The Company considers revenue realized or realizable and earned when it has persuasive evidence of an arrangement, delivery has occurred or contractual services rendered, the sales price is fixed or determinable, and collection is reasonably assured in conformity with ASC 605, *Revenue Recognition*.

The Company derives its revenues from three basic types of transactions: sales of manufactured product, licensing of technology, and research and product development services performed for third parties. Due to differences in the substance of these transaction types, the transactions require, and the Company utilizes, different revenue recognition policies for each.

**Product Sales:** Product Sales includes IGI Product Sales and Contract Manufacturing Sales.

**IGI Product Sales:** The Company records revenue from IGI product sales when title and risk of ownership have been transferred to the customer, which is typically upon delivery of products to the customer.

#### Revenue and Provision for Sales Returns and Allowances

As customary in the pharmaceutical industry, the Company's gross product sales from IGI label products are subject to a variety of deductions in arriving at reported net product sales. When the Company recognizes revenue from the sale of products, an estimate of sales returns and allowances ( SRA ) is recorded, which reduces product sales. Accounts receivable and/or accrued expenses are also reduced and/or increased by the SRA amount. These adjustments include estimates for chargebacks, rebates, cash discounts and returns and other allowances. Currently these provisions are based on industry standards and current contract sales terms with direct and indirect customers. Over time, these provisions will be adjusted as estimates will be based on historical payment experience, historical relationship to revenues, estimated customer inventory levels and current contract sales terms with direct and indirect customers. The estimation process used to determine our SRA provision has been applied on a consistent basis and no material adjustments have been necessary to increase or decrease our reserves for SRA as a result of a significant change in underlying estimates. The Company will use a variety of methods to assess the adequacy of our SRA reserves to ensure that our financial statements are fairly stated. These will include periodic reviews of customer inventory data, customer contract programs and product pricing trends to analyze and validate the SRA reserves.

The provision for chargebacks is our most significant sales allowance. A chargeback represents an amount payable in the future to a wholesaler for the difference between the invoice price paid to the Company by our wholesale customer for a particular product and the negotiated contract price that the wholesaler's customer pays for that product. The Company's chargeback provision and related reserve varies with changes in product mix, changes in customer pricing and changes to estimated wholesaler inventories. The provision for chargebacks also takes into account an estimate of the expected wholesaler sell-through levels to indirect customers at contract prices. The Company will validate the chargeback accrual quarterly through a review of the inventory reports obtained from our largest wholesale customers. This customer inventory information is used to verify the estimated liability for future chargeback claims based on historical chargeback and contract rates. These large wholesalers represent 90% - 95% of the Company's chargeback

payments. The Company continually monitors current pricing trends and wholesaler inventory levels to ensure the liability for future chargebacks is fairly stated.

Contract Manufacturing Sales: The Company recognizes revenue when title transfers to its customers, which is generally upon shipment of products. These shipments are made in accordance with sales commitments and related sales orders entered into with customers either verbally or in written form. The revenues associated with these transactions, net of appropriate cash discounts, product returns and sales reserves, are recorded upon shipment of the products.

Licensing and Royalty Income: Revenues earned under licensing or sublicensing contracts are recognized as earned in accordance with the terms of the agreements. The Company recognizes royalty revenue based on royalty reports received from the licensee. We do not have current plans to have meaningful revenue from licensing and royalty agreements in 2013.

Research and Development Income: The Company establishes agreed upon product development agreements with its customers to perform product development services. Product development revenues are recognized in accordance with the product development agreement upon the completion of the phases of development and when we have no future performance obligations relating to that phase of development. Revenue recognition requires the Company to assess progress against contracted obligations to assure completion of each stage. These payments are generally non-refundable and are reported as deferred until they are recognizable as revenue. If no such arrangement exists, product development fees are recognized ratably over the entire period during which the services are performed.

In making such assessments, judgments are required to evaluate contingencies such as potential variances in schedule and the costs, the impact of change orders, liability claims, contract disputes and achievement of contractual performance standards. Changes in total estimated contract cost and losses, if any, are recognized in the period they are determined. Billings on research and development contracts are typically based upon terms agreed upon by the Company and customer and are stated in the contracts themselves and do not always align with the revenues recognized by the Company.

### Stock-based Compensation

ASC 718-10 defines the fair-value-based method of accounting for stock-based employee compensation plans and transactions used by the Company to account for its issuances of equity instruments to record compensation cost for stock-based employee compensation plans at fair value as well as to acquire goods or services from non-employees. Transactions in which the Company issues stock-based compensation to employees, directors and advisors and for goods or services received from non-employees are accounted for based on the fair value of the equity instruments issued. The Company utilizes pricing models in determining the fair values of options and warrants issued as stock-based compensation. These pricing models utilize the market price of the Company's common stock and the exercise price of the option or warrant, as well as time value and volatility factors underlying the positions.

### Accounts Receivable and Allowance for Doubtful Accounts

The Company extends credit to its contract services customers, based upon credit evaluations, in the normal course of business, primarily with 30-day terms. The Company does not require collateral from its customers. Bad debt provisions are provided for on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable. The Company reviews the allowance for doubtful accounts regularly, and past due balances are reviewed individually for collectability. The Company charges off uncollectible receivables against the allowance when the likelihood of collection is remote.

The Company extends credit to wholesaler and distributor customers and national retail chain customers, based upon credit evaluations, in the normal course of business, primarily with 60-day terms. The Company maintains customer-related accruals and allowances that consist primarily of chargebacks, rebates, sales returns, shelf stock allowances, administrative fees and other incentive programs. Some of these adjustments relate specifically to the generic prescription pharmaceutical business. Typically, the aggregate gross-to-net adjustments related to these customers can exceed 50% of the segment's gross sales. Certain of these accruals and allowances are recorded in the balance sheet as current liabilities and others are recorded as a reduction in accounts receivable.

### Inventory Reserves

The Company periodically reviews its raw material and finished goods inventories for expiry as well as obsolescence and creates reserves to the extent such inventories do not lend themselves to either extending their period of useful life or use in the manufacture of alternative products. Inventory reserves thus created also include inventories relating to

products that are recalled.

### Long-Lived Assets

The Company's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to future net undiscounted cash flows expected to be generated by the asset. If the assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets.

### Deferred Tax Valuation Allowance

Deferred taxes arise due to temporary differences in the bases of assets and liabilities and from net operating losses and credit carry forwards. In general, deferred tax assets represent future tax benefits to be received when certain expenses previously recognized in the Company's statement of operations become deductible expenses under applicable income tax laws or loss or credit carry forwards are utilized. Accordingly, realization of deferred tax assets is dependent on future taxable income against which these deductions, losses and credits can be utilized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management considers historical operating losses, scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. As a result, the Company concluded that it was more likely than not that it will be unable to realize the gross deferred tax assets in the foreseeable future and established a valuation reserve for all such deferred tax assets.

Market Risk

The Company does not use derivative instruments.

Off-Balance Sheet Arrangements

As of December 31, 2013, we had no off-balance sheet arrangements.

**ITEM 7A.**

**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company is a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and is not required to provide the information required under this item.

**ITEM 8.**

**FINANCIAL STATEMENTS**

The Company's Consolidated Financial Statements and Notes thereto begin on page F-1 of this report and are incorporated herein by reference.

**ITEM 9.**

**CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## ITEM 9A.

### CONTROLS AND PROCEDURES

#### *(a) Evaluation of Disclosure Controls and Procedures.*

As of the end of the period covered by this Annual Report on Form 10-K, our management conducted an evaluation, with the participation of our President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)). Based on this evaluation, our President and Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to management, including our President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

#### *(b) Management's Report on Internal Control over Financial Reporting.*

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of its management, including our President and Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Based on the Company's processes and assessment, as described above, management has concluded that, as of December 31, 2013, the Company's internal control over financial reporting was effective. The Company's assessment

included documenting, evaluating and testing the design and operating effectiveness of its internal controls over financial reporting.



This Annual Report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report is not subject to attestation by the Company's registered public accounting firm pursuant to Item 308(b) of Regulation S-K.

*(c) Changes in Internal Control over Financial Reporting*

There was no change in our internal control over financial reporting during our fourth quarter ended December 31, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B.**

**OTHER INFORMATION**

None.

**PART III**

**ITEM 10.**

**DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

A portion of the information required by this item will be contained in the Company's Proxy Statement for the Company's 2014 Annual Meeting of Stockholders (the "2014 Proxy Statement") under the captions "Proposal No. 1 Election of Directors", "Structure and Practices of the Board of Directors - Committees of the Board of Directors", "Audit Committee", "Section 16(a) Beneficial Ownership Reporting Compliance", and "Executive Compensation", which are incorporated herein by this reference.

The Company has adopted a written code of ethics that applies to all directors, officers and employees of the Company and its subsidiaries. The Company's code of ethics is available at its web site at [www.igilabs.com](http://www.igilabs.com) posted as "2012 Standard of Business Conduct". Any amendments to the code of ethics or waivers from the provisions of the code of ethics for the Company's principal executive officer and principal financial and accounting officer will be disclosed on the Company's Internet website within four business days following the date of such amendment or waiver.

**ITEM 11.**

**EXECUTIVE COMPENSATION**

The information required by this item will be contained in the Company's 2014 Proxy Statement under the captions "Executive Compensation", and "Structure and Practices of the Board of Directors - Director Compensation" and is incorporated herein by this reference.

**ITEM 12.**

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this item will be contained in the Company's 2014 Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and Management" and is incorporated herein by this reference.

**Securities Authorized For Issuance Under Equity Compensation Plans**

The information required by this item will be contained in the Company's 2014 Proxy Statement under the captions "Securities Authorized for Issuance Under Equity Compensation Plans" and is incorporated herein by this reference.

**ITEM 13.**

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item will be contained in the Company's 2014 Proxy Statement under the captions "Proposal 1 Election of Directors - Independence of Directors", "Structures and Practices of the Board of Directors Committees of the Board of Directors" and "Certain Relationships and Related Transactions" and is incorporated herein by this reference.

**ITEM 14.**

**PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this item will be contained in the Company's 2014 Proxy Statement under the caption "Relationship with Independent Public Accountants" and is incorporated herein by this reference.

**PART IV**

**ITEM 15.**

**EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) (1) Financial Statements

The Consolidated Financial Statements and related Notes filed as part of this Annual Report on Form 10-K are listed on the Index to Consolidated Financial Statements on page F-1.

(a) (2) Financial Statement Schedules

Financial Statement Schedules have been omitted because they are either not applicable or the required information is included in our Consolidated Financial Statements or Notes thereto.

(a) (3) List of Exhibits

See the following list of exhibits below which exhibits are filed as part of this Annual Report on Form 10-K. We are incorporating by reference to our previous SEC filings certain exhibits filed as part of this Annual Report on Form 10-K. The location of each such exhibit in the previous filing is indicated in parentheses.

(b) Exhibits

<b>Exhibit Number</b>	<b>Description</b>
---------------------------	--------------------

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- (3.1) Amended and Restated Certificate of Incorporation of IGI Laboratories, Inc., dated May 7, 2008 (incorporated by reference to Exhibit 3.1 to the Company's Report on Form 8-K, filed May 12, 2008).
- (3.2) Amended and Restated Bylaws of IGI Laboratories, Inc., effective May 7, 2008 (incorporated by reference to Exhibit 3.2 to the Company's Report on Form 8-K, filed May 12, 2008).
- (3.3) Certificate of Designation of the Relative Rights and Preferences of the Series C Convertible Preferred Stock of IGI Laboratories, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Report on Form 8-K, filed March 30, 2010 (the March 2010 8-K)).
- (4.1) Specimen stock certificate for shares of Common Stock, par value \$.01 per share (incorporated by reference to Exhibit 4 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, filed March 28, 2001 (the 2000 Form 10-K)).
- (4.2) Form of Preferred Stock Purchase Warrant (incorporated by reference to Exhibit 4.2 to the March 2009 8-K).
- (4.3) IGI Laboratories, Inc. Common Stock Purchase Warrant in favor of Rockport Venture Securities, LLC, dated March 13, 2009 (incorporated by reference to Exhibit 4.3 to the March 2009 8-K).
- (4.4) Form of IGI Laboratories, Inc. Amended and Restated Common Stock Purchase Warrant (incorporated by reference to Exhibit 4.1 to the Company's Report on Form 8-K, filed December 8, 2010).
- (4.5) IGI Laboratories, Inc. Common Stock Purchase Warrant in favor of Amzak Capital Management, LLC, dated December 21, 2010 (incorporated by reference to Exhibit 4.1 to the Company's Report on Form 8-K, filed December 22, 2010).
- (4.6) IGI Laboratories, Inc. Securities Purchase Agreement in favor of Amzak Capital Management, LLC, dated December 20, 2012 (incorporated by reference to Exhibit 4.6 to the Company's Annual Report on Form 10-K, filed March 28, 2013).
- (10.1)# IGI, Inc. 1998 Directors Stock Plan, as amended (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 (Registration No. 333-160342), filed June 30, 2009).
- (10.2)# IGI, Inc. 1999 Director Stock Option Plan, as amended (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 (Registration No. 333-160342), filed June 30, 2009).
- (10.3) Manufacturing and Supply Agreement dated as of February 14, 2001 among IGI, Inc., IGEN, Inc., Immunogenetics, Inc. and Genesis Pharmaceutical, Inc. (incorporated by reference to Exhibit 10.59 to the 2000 Form 10-K).

- (10.4) License Agreement by and between Micro-Pak, Inc. (now known as Novavax, Inc.) and IGEN, Inc. effective as of December 13, 1995 (incorporated by reference to Exhibit (10) (v) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, filed March 29, 1996).
- (10.5) Sublicense Agreement between IGI, Inc. and Tarpan Therapeutics, Inc. dated April 19, 2004 (incorporated by reference to Exhibit 10.109 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, filed May 14, 2004).
- (10.6) Amendment of the supply and license agreement between IGI, Inc. and Estée Lauder, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K filed November 24, 2004).
- (10.7)# Form of Stock Option Award Agreement under the 1999 Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.4 to the Company's Report on Form 10-Q filed November 14, 2008).
- (10.8) Securities Purchase Agreement, by and among IGI Laboratories, Inc. and the purchasers set forth on Schedule A thereto, dated March 13, 2009 (incorporated by reference to Exhibit 10.1 to the March 2009 8-K).
- (10.9) Voting Agreement by and among IGI Laboratories, Inc., Signet Healthcare Partners, G.P. and the stockholders of the Company set forth on Schedule A thereto, dated March 13, 2009 (incorporated by reference to Exhibit 10.2 to the March 2009 8-K).
- (10.10) Registration Rights Agreement by and among IGI Laboratories, Inc., the purchasers set forth on Schedule A thereto and the placement agent set forth on Schedule B thereto, dated March 13, 2009 (incorporated by reference to Exhibit 10.3 to the March 2009 8-K).
- (10.11) Guaranty Agreement by Immunogenetics, Inc. in favor of the parties listed on Schedule A thereto, dated March 13, 2009 (incorporated by reference to Exhibit 10.4 to the March 2009 8-K).
- (10.12) Security Agreement by and among IGI Laboratories, Inc., Immunogenetics, Inc. and the secured parties listed on the signature page thereto, dated March 13, 2009 (incorporated by reference to Exhibit 10.5 to the March 2009 8-K).
- (10.13) Intellectual Property Security Agreement by and among IGI Laboratories, Inc., Immunogenetics, Inc. and the secured parties listed on the signature page thereto, dated March 13, 2009 (incorporated by reference to Exhibit 10.6 to the March 2009 8-K).
- (10.14) Intercreditor Agreement by and among Life Sciences Opportunities Fund II, L.P., Life Sciences Opportunities Fund (Institutional) II, L.P., Pinnacle Mountain Partners, LLC and IGI Laboratories, Inc., dated March 13, 2009 (incorporated by reference to Exhibit 10.7 to the March 2009 8-K).
- (10.15)# Indemnification Agreement by and between IGI Laboratories, Inc. and Joyce Erony, dated March 13, 2009 (incorporated by reference to Exhibit 10.10 to the March 2009 8-K).
- (10.16)# Form of Indemnification Agreement for Certain Directors (incorporated by reference to Exhibit 10.11 to the March 2009 8-K).
- (10.17)# IGI, Inc. 1999 Stock Incentive Plan, as amended (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8 (Registration No.

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- 333-160342), filed June 30, 2009).
- (10.18)# IGI Laboratories, Inc. 2009 Equity Incentive Plan, as amended and restated (incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K filed May 24, 2010).
- (10.19)# Form of Non-Qualified Stock Option Agreement under the IGI Laboratories, Inc. 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Report on Form 8-K filed July 2, 2009).
- (10.20)# Form of Award Agreement for Restricted Shares under the IGI Laboratories, Inc. 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Report on Form 8-K filed July 2, 2009).
- (10.21)# Amended and Restated Employment Agreement dated April 1, 2010 between IGI Laboratories, Inc. and Charles Moore (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2010, filed May 17, 2010).
- (10.22) Form of Securities Purchase Agreement, by and among IGI Laboratories, Inc. and the purchasers thereto, dated March 29, 2010 (incorporated by reference to Exhibit 10.1 to the March 2010 8-K).
- (10.23) Registration Rights Agreement by and among IGI Laboratories, Inc., the purchasers set forth on Schedule A thereto, dated March 29, 2010 (incorporated by reference to Exhibit 10.2 to the March 2010 8-K).

- (10.24) Registration Rights Agreement by and among IGI Laboratories, Inc. and certain investors, dated December 8, 2010 (incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K filed December 8, 2010).
- (10.25) Credit Agreement dated as of December 21, 2010 by and between IGI Laboratories, Inc. and Amzak Capital Management, LLC (incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K filed December 22, 2010 (the December 2010 8-K))
- (10.26) Pledge and Security Agreement dated as of December 21, 2010 by and between IGI Laboratories, Inc. and Amzak Capital Management, LLC (incorporated by reference to Exhibit 10.2 to the December 2010 8-K).
- (10.27) Registration Rights Agreement dated as of December 21, 2010 by and between IGI Laboratories, Inc. and Amzak Capital Management, LLC (incorporated by reference to Exhibit 10.3 to the December 2010 8-K).
- (10.28) Registration Rights Agreement dated as of December 21, 2010 by and between IGI Laboratories, Inc. and Amzak Capital Management, LLC (incorporated by reference to Exhibit 10.3 to the December 2010 8-K).
- (10.29)# Employment Agreement dated July 14, 2011 between IGI Laboratories, Inc. and Jenniffer Collins (incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K filed July 20, 2011).
- (10.30)# Form of Stock Option Award Agreement under the IGI Laboratories, Inc. 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Report on Form 8-K filed July 20, 2011).
- (10.31)# Employment Agreement dated July 30, 2012 between IGI Laboratories, Inc. and Jason Grenfell-Gardner (incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K filed July 30, 2012).
- (10.32)# Separation of Employment Agreement and General Release dated August 14, 2012 between IGI Laboratories, Inc. and Charles Moore (incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K filed August 14, 2012).
- (10.33) Loan and Security Credit Agreement dated as of August 31, 2012 by and among IGI Laboratories, Inc., Igen, Inc. and IGI Labs, Inc. as Borrower and Square 1 Bank as Bank (incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K filed September 6, 2012)
- (10.34) Registration Rights Agreement dated as of December 20, 2012 by and between IGI Laboratories, Inc. and Amzak Capital Management, LLC (incorporated by reference to Exhibit 10.34 to the Company's Annual Report on Form 10-K, filed March 28, 2013).
- (10.35)+ Purchase and Sale Agreement between the Company and Prasco, LLC for the purchase of econazole nitrate cream 1%, dated February 1, 2013, (incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K, filed August 9, 2013).
- (21) List of Subsidiaries (incorporated by reference to Exhibit 21 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, filed April 14, 2000).
- (23.1)\* Consent of EisnerAmper LLP.
- (31.1)\* Certification of the President and Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (31.2)\* Certification of the Principal Financial and Accounting Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.



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- (32.1)\*\* Certification of the President and Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (32.2)\*\* Certification of the Principal Financial and Accounting Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (101)\* The following financial information from this Annual Report on Form 10-K for the year ended December 31, 2013, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Consolidated Statements of Operations; (ii) the Consolidated Balance Sheets; (iii) the Consolidated Statements of Cash Flows; and (iv) the Notes to Consolidated Financial Statements, tagged as blocks of text.

\*

Filed herewith.

\*\*

Furnished herewith.

#

Indicates management contract or compensatory plan.

+

Portions of this Exhibit were omitted and filed separately with the Secretary of the SEC pursuant to a request for confidential treatment that has been filed with the SEC.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: IGI Laboratories, Inc.  
 March 31, 2014 By: /s/ Jason Grenfell-Gardner  
 Jason Grenfell-Gardner  
 President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacity and on the dates indicated.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
/s/ Jason Grenfell-Gardner Jason Grenfell-Gardner	Director, President and Chief Executive Officer (Principal Executive Officer)	March 31, 2014
/s/ Jenniffer Collins Jenniffer Collins	Chief Financial Officer (Principal Financial and Accounting Officer)	March 31, 2014
/s/ Joyce Erony Joyce Erony	Director	March 31, 2014
/s/ James Gale James Gale	Director	March 31, 2014
/s/ Michael Hemric Michael Hemric	Director	March 31, 2014
/s/ Narendra Borkar Narendra Borkar	Director	March 31, 2014
/s/ Bhaskar Chaudhuri Bhaskar Chaudhuri	Director	March 31, 2014



**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

Reports of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2013 and 2012	F-3
Consolidated Statements of Operations for the years ended December 31, 2013 and 2012	F-4
Consolidated Statements of Cash Flows for the years ended December 31, 2013 and 2012	F-5
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2013 and 2012	F-6
Notes to Consolidated Financial Statements	F-7

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders

IGI Laboratories, Inc.

We have audited the accompanying consolidated balance sheets of IGI Laboratories, Inc. and subsidiaries (the Company ) as of December 31, 2013 and 2012, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the years in the two-year period ended December 31, 2013. The financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of IGI Laboratories, Inc. and subsidiaries as of December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

/s/ EisnerAmper LLP

Iselin, New Jersey

March 31, 2014

F-2

**IGI LABORATORIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share and per share information)

	December 31, 2013	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,101	\$ 2,536
Accounts receivable, net	4,947	1,577
Inventories	2,869	1,773
Prepaid expenses and other receivables	641	253
Total current assets	10,558	6,139
Property, plant and equipment, net	2,623	2,691
Product acquisition costs, net	1,766	
Restricted cash, long term	54	54
License fee, net	200	300
Debt issuance costs, net	69	100
Other	157	143
Total assets	\$ 15,427	\$ 9,427
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,523	\$ 1,091
Accrued expenses	2,915	820
Deferred income, current	768	48
Capital lease obligation, current	15	17
Total current liabilities	5,221	1,976
Note payable, bank	3,000	1,000
Deferred income, long term	4	20
Capital lease obligation, long term	11	4
Total liabilities	8,236	3,000
Commitments and contingencies		
Stockholders equity:		
Series A Convertible Preferred stock, \$0.01 par value, 100 shares authorized; 0 and 50 shares issued and outstanding as of December 31, 2013 and 2012, respectively; liquidation preference - \$0 at December		500

31,			
2013 and \$500,000 at December 31, 2012			
Series C Convertible Preferred stock, \$0.01 par value, 1,550 shares authorized; 0 and 1,550 shares issued and outstanding as of			
December 31,			
2013 and 2012, respectively; liquidation preference - \$0 at December			
31,			
2013 and \$1,764,240 at December 31, 2012			1,517
Common stock, \$0.01 par value, 60,000,000 shares authorized;			
46,748,575			
and 42,705,032 shares issued and outstanding as of December 31,			
2013			
and 2012, respectively	487		446
Additional paid-in capital	51,541		47,409
Accumulated deficit	(44,837)		(43,445)
Total stockholders' equity	7,191		6,427
Total liabilities and stockholders' equity	\$ 15,427	\$	9,427

The accompanying notes are an integral part of the consolidated financial statements.



**IGI LABORATORIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the years ended December 31, 2013 and 2012**  
**(in thousands, except shares and per share information)**

	<b>2013</b>		<b>2012</b>
<b>Revenues:</b>			
Product sales, net	\$ 16,981	\$	6,545
Research and development income	1,094		1,931
Licensing, royalty and other income	149		87
Total revenues	18,224		8,563
<b>Costs and Expenses:</b>			
Cost of sales	12,079		5,787
Selling, general and administrative expenses	3,484		3,078
Product development and research expenses	2,743		2,834
Total costs and expenses	18,306		11,699
Operating loss	(82)		(3,136)
Interest expense and other income (expense), net	(199)		(975)
Loss before benefit from income taxes	(281)		(4,111)
Benefit from income taxes, principally sale of New Jersey net operating losses	197		184
<b>Net loss</b>	<b>(84)</b>		<b>(3,927)</b>
Deemed dividend upon mandatory conversion of preferred stock into common stock	(1,308)		
<b>Net loss attributable to common stockholders</b>	<b>\$ (1,392)</b>	<b>\$</b>	<b>(3,927)</b>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.03)</b>	<b>\$</b>	<b>(0.10)</b>
<b>Weighted average shares of common stock outstanding</b>			
Basic and diluted	43,517,640		39,786,446

The accompanying notes are an integral part of the consolidated financial statements.

F-4

**IGI LABORATORIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**For the years ended December 31, 2013 and 2012**

(in thousands)

	2013	2012
<b>Cash flows from operating activities:</b>		
Net loss	\$ (84)	\$ (3,927)
Reconciliation of net loss to net cash used in operating activities:		
Depreciation and amortization	375	357
Amortization of license fee	100	100
Provision for write down of inventory	110	138
Stock-based compensation expense	536	378
Amortization of debt issuance costs	31	862
Amortization of product acquisition costs	60	
Loss on abandonment of property		9
Changes in operating assets and liabilities:		
Accounts receivable	(3,370)	(369)
Inventories	(1,206)	(716)
Prepaid expenses and other current assets	(402)	119
Accounts payable and accrued expenses	2,528	671
Deferred income	704	5
Net cash used in operating activities	(618)	(2,373)
<b>Cash flows from investing activities:</b>		
Capital expenditures	(287)	(342)
Product acquisition costs	(1,826)	
Net cash used in investing activities	(2,113)	(342)
<b>Cash flows from financing activities:</b>		
Proceeds from note payable, net of debt issuance costs	2,000	886
Repayment of note payable, related party		(500)
(Expenses of) proceeds from sale of treasury stock, net of expenses	(63)	1,963
Proceeds from exercise of common stock options and warrants	376	39
Principal payments on capital lease obligation	(17)	(51)
Net cash provided by financing activities	2,296	2,337
Net decrease in cash and cash equivalents	(435)	(378)
Cash and cash equivalents at beginning of year	2,536	2,914

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Cash and cash equivalents at end of year	\$	2,101	\$	2,536
Supplemental cash flow information:				
Cash payments for interest	\$	142	\$	99
Cash receipt from taxes, net		(194)		(184)
Non cash transactions:				
Conversion of Series A Convertible Preferred Stock into Common Stock		500		
Conversion of Series C Convertible Preferred Stock and accrued dividends into Common Stock		2,825		
Equipment financed through capital lease		20		30
Issuance of restricted stock		3		1
Forfeiture of restricted stock				(2)
Issuance of warrants				209

The accompanying notes are an integral part of the consolidated financial statements.

**IGI LABORATORIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY**

**For the years ended December 31, 2013 and 2012**

**(in thousands, except share information)**

	Series A		Series C		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Total Stockholders Equity
	Preferred Shares	Stock Amount	Preferred Shares	Convertible Stock Amount	Shares	Amount				
Balance, December 31, 2011	50	\$ 500	1,550	\$ 1,517	41,463,836	\$ 415	\$ 46,246	\$(39,518)	\$(1,395)	\$ 7,765
Stock based compensation expense stock options							156			156
Stock based compensation expense							222			222
Restricted stock restricted					109,748	1	(1)			
Stock issuance restricted					(177,084)	(2)	2			
Stock forfeited stock options					40,000		26			
Exercised warrants					1,268,532	13				26
Exercised sale of						19	549			13
Treasury stock, net of									1,395	1,963
Expenses of 2012							209			
Fair value of warrants issued										209
Net loss								(3,927)		(3,927)

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Balance, December 31, 2012	50	\$ 500	1,550	\$ 1,517	42,705,032		\$ 446	\$ 47,409	\$(43,445)		\$ 6,427
Stock based compensation expense stock options								207			207
Stock based compensation expense								329			329
Restricted stock					325,000		3	(3)			
Stock issuance					427,713		5	231			
Stock warrants exercised											236
Stock options exercised					129,336		1	138			139
Costs related to stock issuance			>								
IGI International	838.8		779.6		774.2			562.8			650.3
IGI Utilities	751.1		671.5		619.8			639.5			639.8
Other	9.9		10.8		11.5			12.1			12.9
Total debt	4,539.0		4,087.2		3,857.3			3,691.3			3,801.3
IGI Corporation stockholders' equity	3,163.3		2,844.1		2,685.2			2,659.1			2,492.5
Noncontrolling interests, principally in AmeriGas partners	577.6		750.9		880.4			1,004.1			1,055.4
Total capitalization	\$8,279.9		\$7,682.2		\$7,422.9			\$7,354.5			\$7,349.2
Ratio of capitalization:											
Total debt	54.8	%	53.2	%	52.0	%		50.2	%		51.7
IGI Corporation stockholders' equity	38.2	%	37.0	%	36.2	%		36.2	%		33.9
Noncontrolling interests, principally in AmeriGas partners	7.0	%	9.8	%	11.8	%		13.6	%		14.4
	100.0	%	100.0	%	100.0	%		100.0	%		100.0



Table of Contents

(Millions of dollars, except per share amounts)	Year Ended September 30,				
	2017	2016	2015	2014	2013
Non-GAAP Reconciliation:					
Adjusted net income attributable to UGI Corporation:					
Net income attributable to UGI Corporation	\$436.6	\$364.7	\$281.0	\$337.2	\$278.1
Net (gains) losses on commodity derivative instruments not associated with current-period transactions (net of tax of \$31.9, \$13.5, \$(30.9), \$(4.5) and \$3.1, respectively) (a) (b)	(51.2 )	(29.9 )	53.3	6.6	(4.3 )
Unrealized losses on foreign currency derivative instruments (net of tax of \$(9.9), \$0, \$0, \$0 and \$0) (a)	13.9	—	—	—	—
Loss on extinguishments of debt (net of tax of \$(6.1), \$(5.0), \$0, \$0 and \$0, respectively) (a)	9.6	7.9	—	—	—
Integration and acquisition expenses associated with Finagaz acquired on May 29, 2015 (net of tax of \$(13.7), \$(10.6), \$(7.7), \$(2.2) and \$0, respectively) (a)	26.2	17.3	14.9	4.3	—
Impact from change in French tax rate	(29.0 )	—	—	—	—
Costs associated with extinguishment of debt (net of tax of \$0, \$0, \$(5.7), \$0 and \$0, respectively) (a) (c)	—	—	4.6	—	—
Impact of retroactive change in French tax law	—	—	—	5.7	—
Integration expenses associated with the retail propane businesses of Energy Transfer Partners, L.P. ("Heritage Propane") acquired by the Partnership on January 12, 2012 (net of tax of \$0, \$0, \$0, \$0 and \$(2.8), respectively) (a)	—	—	—	—	4.4
Adjusted net income attributable to UGI Corporation (d)	\$406.1	\$360.0	\$353.8	\$353.8	\$278.2
Adjusted diluted earnings per share:					
UGI Corporation earnings per share - diluted	\$2.46	\$2.08	\$1.60	\$1.92	\$1.60
Net (gains) losses on commodity derivative instruments not associated with current-period transactions (b)	(0.29 )	(0.17 )	0.30	0.04	(0.02 )
Unrealized losses on foreign currency derivative instruments	0.08	—	—	—	—
Loss on extinguishments of debt	0.05	0.04	—	—	—
Integration and acquisition expenses associated with Finagaz acquired on May 29, 2015	0.15	0.10	0.08	0.03	—
Impact from change in French tax rate	(0.16 )	—	—	—	—
Costs associated with extinguishment of debt	—	—	0.03	—	—
Impact of retroactive change in French tax law	—	—	—	0.03	—
Integration expenses associated with the retail propane businesses of Heritage Propane acquired by the Partnership on January 12, 2012	—	—	—	—	0.03
Adjusted diluted earnings per share (d)	\$2.29	\$2.05	\$2.01	\$2.02	\$1.61

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

(b) Includes the effects of rounding.

(c) Costs associated with extinguishment of debt in Fiscal 2015 are included in "Interest expense" on the Consolidated Statements of Income.

(d) Management uses "adjusted net income attributable to UGI" and "adjusted diluted earnings per share," both of which are non-GAAP financial measures, when evaluating UGI's overall performance. Adjusted net income attributable to UGI is net income attributable to UGI after excluding net after-tax gains and losses on commodity and certain foreign currency derivative





Table of Contents

instruments not associated with current-period transactions (principally comprising changes in unrealized gains and losses on such derivative instruments), losses on extinguishments of debt, Finagaz and Heritage Propane integration and acquisition expenses and the impact from changes in French tax rate and tax law.

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. Management believes that these non-GAAP measures provide meaningful information to investors about UGI's performance because they eliminate the impact of 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.

Table of Contents

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") discusses our results of operations and our financial condition. MD&A should be read in conjunction with our Items 1 & 2, "Business and Properties," our Item 1A, "Risk Factors," and our Consolidated Financial Statements in Item 8 below including "Segment Information" included in Note 21 to 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 earnings, after adjusting for the effects of gains and losses on derivative instruments not associated with current period transactions as further discussed below, are significantly higher in our first and second fiscal quarters.

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. Adjusted net income attributable to UGI Corporation excludes (1) net after-tax gains and losses on commodity and certain foreign currency derivative instruments not associated with current-period transactions and (2) other significant discrete items that management believes affect the comparison of period-over-period results (as such items are further described below). UGI does not designate its commodity and certain foreign currency derivative instruments as hedges under U.S. generally accepted accounting principles ("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 these derivative instruments. GAAP net income includes after-tax gains and losses on commodity and certain foreign currency derivative instruments 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 and losses will be largely offset by gains or losses on anticipated future energy commodity transactions or mitigate the volatility in anticipated future earnings. For further information, see Note 21 to Consolidated Financial Statements, and "Non-GAAP Financial Measures - Adjusted Net Income Attributable to UGI and Adjusted Earnings Per Diluted Share" below.

## Executive Overview

## Net Income Attributable to UGI Corporation by Business Unit (GAAP)

(Dollars in millions)	2017		2016		2015	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
AmeriGas Propane	\$44.6	10.2 %	\$43.2	11.8 %	\$61.0	21.7 %
UGI International	158.6	36.3 %	111.6	30.6 %	52.7	18.8 %
Midstream & Marketing	86.9	19.9 %	87.1	23.9 %	107.5	38.3 %
UGI Utilities	116.0	26.6 %	97.4	26.7 %	121.1	43.1 %
Corporate & Other (1)	30.5	7.0 %	25.4	7.0 %	(61.3 )	(21.9 )%
Net income attributable to UGI Corporation	\$436.6	100.0%	\$364.7	100.0%	\$281.0	100.0 %

(1) Corporate & Other includes net after-tax gains (losses) on commodity derivative instruments not associated with current-period transactions of \$51.2 million, \$29.9 million and \$(53.3) million in Fiscal 2017, Fiscal 2016 and Fiscal 2015, respectively. Fiscal 2017 also includes \$13.9 million of after-tax unrealized losses on certain foreign currency derivative instruments.

## Fiscal 2017 Financial Review

For the second year in a row, our domestic business units were faced with challenging operating environments caused by significantly warmer than normal weather. Our geographic diversity typically reduces the risk of extreme weather variations across the United States and our European LPG operations. However in our domestic businesses, Fiscal

2017, much like Fiscal 2016, was unusual in that a substantial portion of the U.S. experienced temperatures based upon heating degree days that were significantly warmer than normal. Although Fiscal 2017 temperatures based upon heating degree days were slightly colder than in Fiscal 2016, temperatures in the critical heating season months of January and February were much warmer than the prior year. Average temperatures at our UGI International operations in Europe were slightly warmer than normal but colder than the very warm temperatures experienced in Fiscal 2016. Notwithstanding the strong headwinds created by this warm weather, UGI achieved record GAAP and adjusted net income attributable to UGI (for further information on adjusted net income and adjusted diluted

Table of Contents

earnings per share, see “Non-GAAP Financial Measures - Adjusted Net Income Attributable to UGI and Adjusted Earnings Per Diluted Share” below). This positive outcome was achieved in part due to contributions from recent investments, growth initiatives and the UGI Gas base rate case increase that became effective in October 2016. As previously mentioned, our UGI International business experienced weather in Fiscal 2017 that was slightly warmer than normal but colder than in Fiscal 2016. Expenses associated with the integration of French LPG retail distributor Finagaz, which we acquired in May 2015, were higher in Fiscal 2017 reflecting substantial progress with our integration activities in our bulk and cylinder businesses. The higher Fiscal 2017 costs associated with these integration activities were offset in large part by the ramping up of expense synergies from these integration activities. A significant portion of the Finagaz integration activities and related integration expenses are now behind us, and we expect to see the continuing synergistic benefits from these integration activities in our future operating results. Although UGI International retail volumes were higher as a result of the colder weather, Fiscal 2017 results at UGI International were negatively affected by the absence of a significant margin parachute experienced in the prior year resulting from rapidly declining LPG commodity prices in Fiscal 2016. UGI International Fiscal 2017 results also reflect a decrease in net deferred income tax liabilities of \$29.0 million resulting from a change in the French corporate income tax rate enacted in December 2016 that will become effective in Fiscal 2021.

Our UGI Utilities segment experienced a significant increase in earnings as a result of higher base rates at UGI Gas, organic customer growth and incremental revenues from distribution system improvements through distribution system improvement charges (“DSIC”). As a result, UGI Utilities net income increased nearly 20% in Fiscal 2017. Midstream & Marketing results were about equal to last year. Fiscal 2017 results benefited from new peaking and LNG contracts, higher allowance for funds used during construction (“AFUDC”) income associated with pipeline projects and the addition of new natural gas marketing customers and volumes. These positive contributions to earnings were offset by lower capacity management revenues, reflecting lower volatility and prices for pipeline capacity, and lower electric generation income resulting principally from lower wholesale price spreads for electricity and lower generation volumes.

Average temperatures in AmeriGas Propane’s service territories for all of Fiscal 2017 were significantly warmer than normal but slightly colder than in Fiscal 2016. However temperatures in the critical heating-season months of January and February were approximately 9% warmer than in Fiscal 2016, impacting retail volumes. The effects of slightly lower retail volumes sold were partially offset by excellent operating expense and propane unit margin management notwithstanding higher and increasing wholesale prices for propane during Fiscal 2017 compared with Fiscal 2016. Growth in the AmeriGas Cylinder Exchange (“ACE”) and National Accounts programs also helped to offset the effects of the lower retail volumes sold.

**Strategic Initiatives**

During Fiscal 2017, we made significant strategic and operational progress in support of our long-term goals. At our UGI International business, we made substantial progress toward the full integration of the Finagaz cylinder and bulk businesses, with the last core integration activities to be finalized in Fiscal 2018. We will reap the benefits of these integration efforts in Fiscal 2018 and beyond. Our European presence and operational density continued to increase with the completion of a smaller-sized, strategic acquisition with operations in Sweden during Fiscal 2017. Late in Fiscal 2017, we acquired an electricity and natural gas marketing business (“DVEP”), which markets to small and medium enterprises in the Netherlands. In October 2017, we entered the LPG market in northern and central Italy with our acquisition of Total’s retail LPG business in Italy, now known as UniverGas Italia S.r.l. (“UniverGas”). The DVEP acquisition will allow us to leverage our experience in energy marketing and to grow in a highly attractive and profitable market in Europe while our acquisition of UniverGas expands our LPG footprint in Europe.

Our UGI Utilities business continues to grow as demand for natural gas remains strong across both the residential and commercial customer segments and as the price difference between natural gas and oil has expanded in the last fiscal year. Gas Utility continued to execute on its infrastructure replacement and system betterment program with record capital expenditures in Fiscal 2017. In January 2017, PNG filed for an increase in annual base rate revenues and received PUC approval for an increase in base rates of \$11.3 million. This base rate increase became effective on October 20, 2017.

Our Midstream & Marketing businesses made significant progress on several key Marcellus Shale projects including the expansion of our LNG liquefaction capacity and the completion of a pipeline construction project that will serve a natural gas fueled, combined cycle power plant located in central Pennsylvania. We began receiving income from this investment in August 2017. We continue to make progress on our PennEast Pipeline project, with FERC expected to approve the project in Fiscal 2018. These projects, along with other smaller midstream projects, are expected to serve the growing demand across the Mid-Atlantic and Northeast regions for abundant, low-cost Marcellus Shale natural gas. In October 2017, Midstream & Marketing enhanced the buildout of its natural gas infrastructure assets with the acquisition of approximately 60 miles of natural gas gathering lines in northern Pennsylvania.

Table of Contents

AmeriGas Partners continued to expand its National Accounts and ACE programs in Fiscal 2017. The Partnership also acquired five retail propane distribution businesses and continued to make meaningful progress in deploying technology to improve the customer experience.

During Fiscal 2017, UGI's domestic and international businesses continued to make significant investments in technology. In September 2017, UGI Utilities rolled out its new, state-of-the-art customer information system which significantly enhances the customer experience and provides for streamlined processes within the company. We will continue to invest in technology enhancements during Fiscal 2018 and beyond with a number of significant information technology ("IT") projects scheduled to begin at each of our major business units to improve efficiency and align processes.

**Financing Transactions and Liquidity**

During Fiscal 2017, AmeriGas Partners completed the refinancing of its long-term debt, which began in Fiscal 2016. These transactions reduced the Partnership's cost of long-term debt and extended their maturities. UGI Utilities also issued \$100 million of long-term debt to provide additional long-term financing of its infrastructure betterment capital program and IT initiatives, and in October 2017, issued a \$125 million unsecured term loan to repay revolving credit balances and for general corporate purposes (see Note 5 to Consolidated Financial Statements).

As more fully described below under "Financial Condition and Liquidity" and in Note 15 to Consolidated Financial Statements, on November 7, 2017, we entered into a Standby Equity Commitment Agreement (the "Commitment Agreement") with AmeriGas Partners pursuant to which UGI has committed to make up to \$225 million of capital contributions to the Partnership through July 1, 2019, for consideration comprising AmeriGas Partners Class B Common Units representing limited partner interests in the Partnership. Although the Partnership does not intend to call on this facility at the present time, this commitment by UGI provides balance sheet flexibility to the Partnership to continue its strategic initiatives following two historically warm years.

We believe each of our business units has sufficient liquidity to fund business operations during Fiscal 2018 (see "Financial Condition and Liquidity" below).

**Non-GAAP Financial Measures - Adjusted Net Income Attributable to UGI and Adjusted Earnings Per Diluted Share**  
**Adjusted Net Income (Loss) Attributable to UGI Corporation by Business Unit (Non-GAAP)**

	2017		2016		2015	
(Dollars in millions)	Amount	% of Total	Amount	% of Total	Amount	% of Total
AmeriGas Propane	\$54.2	13.3 %	\$51.1	14.2 %	\$61.0	17.2 %
UGI International	155.8	38.4 %	128.9	35.8 %	72.2	20.4 %
Midstream & Marketing	86.9	21.4 %	87.1	24.2 %	107.5	30.4 %
UGI Utilities	116.0	28.6 %	97.4	27.1 %	121.1	34.2 %
Corporate & Other	(6.8 )	(1.7 )%	(4.5 )	(1.3 )%	(8.0 )	(2.2 )%
Net income attributable to UGI Corporation	\$406.1	100.0 %	\$360.0	100.0 %	\$353.8	100.0 %

As previously mentioned, 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. Adjusted net income attributable to UGI Corporation is net income attributable to UGI after excluding net after-tax gains and losses on commodity and certain foreign currency derivative instruments not associated with current-period transactions (principally comprising changes in unrealized gains and losses), losses on extinguishments of debt, Finagaz integration and acquisition expenses, and the impact on net deferred income taxes from a change in the French tax rate. For further information on the Company's accounting for commodity and certain foreign currency derivative instruments, see Note 2 and Note 17 to Consolidated Financial Statements.

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. Management believes that these non-GAAP measures provide meaningful information to investors about UGI's performance because they eliminate the impact of 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.

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,

33

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Table of Contents

to adjusted diluted earnings per share, to reflect the adjustments referred to above for Fiscal 2017, Fiscal 2016 and Fiscal 2015 (amounts in millions, except per share amounts).

Year Ended September 30, 2017	Total	AmeriGas Propane	UGI International	Midstream & Marketing	UGI Utilities	Corporate & Other
Adjusted net income attributable to UGI Corporation:						
Net income attributable to UGI Corporation	\$436.6	\$ 44.6	\$ 158.6	\$ 86.9	\$ 116.0	\$ 30.5
Net gains on commodity derivative instruments not associated with current-period transactions (net of tax of \$31.9) (a) (b)	(51.2 )	—	—	—	—	(51.2 )
Unrealized losses on foreign currency derivative instruments (net of tax of \$(9.9)) (a)	13.9	—	—	—	—	13.9
Loss on extinguishments of debt (net of tax of \$(6.1)) (a)	9.6	9.6	—	—	—	—
Integration expenses associated with Finagaz (net of tax of \$(13.7)) (a)	26.2	—	26.2	—	—	—
Impact from change in French tax rate	(29.0 )	—	(29.0 )	—	—	—
Adjusted net income (loss) attributable to UGI Corporation	\$406.1	\$ 54.2	\$ 155.8	\$ 86.9	\$ 116.0	\$(6.8 )
Adjusted diluted earnings per share:						
UGI Corporation earnings per share - diluted	\$2.46	\$ 0.25	\$ 0.89	\$ 0.49	\$ 0.66	\$ 0.17
Net gains on commodity derivative instruments not associated with current-period transactions	(0.29 )	—	—	—	—	(0.29 )
Unrealized losses on foreign currency derivative instruments	0.08	—	—	—	—	0.08
Loss on extinguishments of debt	0.05	0.05	—	—	—	—
Integration expenses associated with Finagaz	0.15	—	0.15	—	—	—
Impact from change in French tax rate	(0.16 )	—	(0.16 )	—	—	—
Adjusted diluted earnings (loss) per share	\$2.29	\$ 0.30	\$ 0.88	\$ 0.49	\$ 0.66	\$(0.04 )

Table of Contents

Year Ended September 30, 2016	Total	AmeriGas Propane	UGI International	Midstream & Marketing	UGI Utilities	Corporate & Other
Adjusted net income attributable to UGI Corporation:						
Net income attributable to UGI Corporation	\$364.7	\$ 43.2	\$ 111.6	\$ 87.1	\$ 97.4	\$ 25.4
Net gains on commodity derivative instruments not associated with current-period transactions (net of tax of \$13.5) (a) (b)	(29.9 )	—	—	—	—	(29.9 )
Loss on extinguishments of debt (net of tax of \$(5.0)) (a)	7.9	7.9	—	—	—	—
Integration expenses associated with Finagaz (net of tax of \$(10.6)) (a)	17.3	—	17.3	—	—	—
Adjusted net income (loss) attributable to UGI Corporation	\$360.0	\$ 51.1	\$ 128.9	\$ 87.1	\$ 97.4	\$ (4.5 )
Adjusted diluted earnings per share:						
UGI Corporation earnings per share – diluted	\$2.08	\$ 0.25	\$ 0.64	\$ 0.50	\$ 0.55	\$ 0.14
Net gains on commodity derivative instruments not associated with current-period transactions (b)	(0.17 )	—	—	—	—	(0.17 )
Loss on extinguishments of debt	0.04	0.04	—	—	—	—
Integration expenses associated with Finagaz	0.10	—	0.10	—	—	—
Adjusted diluted earnings (loss) per share	\$2.05	\$ 0.29	\$ 0.74	\$ 0.50	\$ 0.55	\$ (0.03 )

Table of Contents

Year Ended September 30, 2015	Total	AmeriGas Propane	UGI International	Midstream & Marketing	UGI Utilities	Corporate & Other
Adjusted net income attributable to UGI Corporation:						
Net income (loss) attributable to UGI Corporation	\$281.0	\$ 61.0	\$ 52.7	\$ 107.5	\$ 121.1	\$(61.3 )
Net losses on commodity derivative instruments not associated with current-period transactions (net of tax of \$(30.9)) (a) (b)	53.3	—	—	—	—	53.3
Costs associated with extinguishment of debt (net of tax of \$(5.7)) (a) (c)	4.6	—	4.6	—	—	—
Integration and acquisition expenses associated with Finagaz (net of tax of \$(7.7)) (a)	14.9	—	14.9	—	—	—
Adjusted net income (loss) attributable to UGI Corporation	\$353.8	\$ 61.0	\$ 72.2	\$ 107.5	\$ 121.1	\$(8.0 )
Adjusted diluted earnings per share:						
UGI Corporation earnings (loss) per share - diluted	\$1.60	\$ 0.35	\$ 0.30	\$ 0.61	\$ 0.69	\$(0.35 )
Net losses on commodity derivative instruments not associated with current-period transactions (b)	0.30	—	—	—	—	0.30
Costs associated with extinguishment of debt	0.03	—	0.03	—	—	—
Integration and acquisition expenses associated with Finagaz	0.08	—	0.08	—	—	—
Adjusted diluted earnings (loss) per share	\$2.01	\$ 0.35	\$ 0.41	\$ 0.61	\$ 0.69	\$(0.05 )
(a) Income taxes associated with pre-tax adjustments determined using statutory business unit tax rates.						
(b) Includes the effects of rounding.						
(c) Costs associated with an extinguishment of debt at Antargaz are included in "Interest expense" on the Consolidated Statements of Income.						

Table of Contents

## Results of Operations

The following analyses compare the Company's results of operations for (1) Fiscal 2017 with Fiscal 2016 and (2) Fiscal 2016 with Fiscal 2015.

## Fiscal 2017 Compared with Fiscal 2016

## Consolidated Results

## Net Income Attributable to UGI Corporation by Business Unit:

(Dollars in millions)	2017		2016		Variance - Favorable (Unfavorable)	
	Amount	% of Total	Amount	% of Total	Amount	% Change
AmeriGas Propane (a)	\$44.6	10.2 %	\$43.2	11.8 %	\$1.4	3.2 %
UGI International (b)(c)	158.6	36.3 %	111.6	30.6 %	47.0	42.1 %
Midstream & Marketing	86.9	19.9 %	87.1	23.9 %	(0.2 )	(0.2 )%
UGI Utilities	116.0	26.6 %	97.4	26.7 %	18.6	19.1 %
Corporate & Other (d)(e)	30.5	7.0 %	25.4	7.0 %	5.1	N.M.
Net income attributable to UGI Corporation	\$436.6	100.0%	\$364.7	100.0%	\$71.9	19.7 %

(a) Includes net after-tax losses of \$9.6 million and \$7.9 million from extinguishments of debt in Fiscal 2017 and Fiscal 2016, respectively (see Note 5 to Consolidated Financial Statements).

(b) Fiscal 2017 includes beneficial impact of a \$29.0 million adjustment to net deferred income tax liabilities associated with a change in French income tax rate, the release of a \$7.6 million valuation allowance against future uses of foreign tax credit carryforwards and an income tax settlement refund of \$6.7 million, plus interest, in France (see Note 6 to Consolidated Financial Statements).

(c) Includes after-tax integration expenses associated with Finagaz of \$26.2 million and \$17.3 million in Fiscal 2017 and Fiscal 2016, respectively.

(d) Includes net after-tax gains on commodity derivative instruments not associated with current-period transactions of \$51.2 million and \$29.9 million in Fiscal 2017 and Fiscal 2016, respectively. Fiscal 2017 also includes \$13.9 million of after-tax unrealized losses on certain foreign currency derivative instruments.

(e) Fiscal 2017 includes a \$7.1 million after-tax loss from the impairment of a cost basis investment (see Note 2 to Consolidated Financial Statements).

N.M. — Variance is not meaningful.

## Fiscal 2017 Highlights

Fiscal 2017 includes net after-tax gains on commodity derivative instruments not associated with current-period transactions of \$51.2 million (equal to \$0.29 per diluted share) and net after-tax unrealized losses on certain foreign currency instruments of \$13.9 million (equal to \$0.08 per diluted share). Fiscal 2016 includes net after-tax gains on commodity derivative instruments not associated with current-period transactions of \$29.9 million (equal to \$0.17 per diluted share).

Fiscal 2017 and Fiscal 2016 reflect net after-tax integration expenses associated with Finagaz, which decreased net income attributable to UGI by \$26.2 million (equal to \$0.15 per diluted share) and \$17.3 million (equal to \$0.10 per diluted share), respectively.

Fiscal 2017 and Fiscal 2016 include after-tax losses on extinguishments of debt at AmeriGas Propane of \$9.6 million (equal to \$0.05 per diluted share) and \$7.9 million (equal to \$0.04 per diluted share), respectively.

Fiscal 2017 includes a \$29.0 million decrease in net deferred income tax liabilities (equal to \$0.16 per diluted share) resulting from a change in the French corporate income tax rate enacted in December 2016 that will become effective in Fiscal 2021.

Average temperatures during Fiscal 2017 were significantly warmer than normal at each of our domestic business units, but colder than in Fiscal 2016.

UGI Utilities' Fiscal 2017 net income reflects the after-tax impact of an increase in UGI Gas base rates of \$11.8 million (equal to \$0.07 per diluted share).

UGI International's Fiscal 2017 retail unit margins were lower reflecting the effects of rising LPG commodity costs compared to the beneficial effects of declining LPG commodity costs in the prior year.

Table of Contents

Fiscal 2017 net income reflects \$10.3 million of excess tax benefits (equal to \$0.06 per diluted share) resulting from the adoption of new accounting guidance on share-based payments, effective on October 1, 2016.

Fiscal 2017 includes a \$7.1 million after-tax loss (equal to \$0.04 per diluted share) from an impairment of a cost basis investment.

Although the British pound sterling and the euro during much of Fiscal 2017 were slightly weaker than during Fiscal 2016, the translation effects of these weaker currencies did not have a material impact on year-over-year UGI International net income.

AmeriGas Propane	2017	2016	Increase (Decrease)		
(Dollars in millions)					
Revenues	\$2,453.5	\$2,311.8	\$141.7	6.1	%
Total margin (a)	\$1,450.6	\$1,447.0	\$3.6	0.2	%
Partnership operating and administrative expenses	\$915.1	\$928.8	\$(13.7)	(1.5)	%
Partnership Adjusted EBITDA (b)(c)	\$551.3	\$543.0	\$8.3	1.5	%
Operating income (c)(d)	\$355.3	\$356.3	\$(1.0)	(0.3)	%
Retail gallons sold (millions)	1,046.9	1,065.5	(18.6)	(1.7)	%
Degree days – % (warmer) than normal (e)	(13.5)	(15.0)	—	—	

Total margin represents total revenues less total cost of sales. Total margin for Fiscal 2017 and Fiscal 2016 (a) excludes net pre-tax gains of \$31.1 million and \$66.1 million, respectively, on AmeriGas Propane commodity derivative instruments not associated with current-period transactions.

Partnership Adjusted EBITDA should not be considered as an alternative to net income (as an indicator of operating performance) and is not a measure of performance or financial condition under GAAP. Management uses (b) Partnership Adjusted EBITDA as the primary measure of segment profitability for the AmeriGas Propane segment (see Note 21 to Consolidated Financial Statements). Partnership Adjusted EBITDA in Fiscal 2017 excludes an accrual of \$7.5 million associated with a manufactured gas plan (“MGP”) site obtained in a prior year acquisition. Fiscal 2017 operating income includes adjustments to correct previously recorded gains on sales of fixed assets (\$8.8 million) and decreased depreciation expense (\$1.1 million) relating to certain assets acquired with the (c) Heritage Propane acquisition in 2012, which adjustments reduced Partnership Adjusted EBITDA by \$8.8 million and reduced operating income by \$7.7 million. Fiscal 2017 operating income also includes adjustments to correct depreciation expense associated with prior periods which increased depreciation expense and reduced operating income by \$7.5 million.

(d) Operating income reflects operating and administrative expenses of the General Partner.

Deviation from average heating degree days for the 30-year period 1981-2010 based upon national weather (e) statistics provided by the National Oceanic and Atmospheric Administration (“NOAA”) for 344 Geo regions in the United States, excluding Alaska and Hawaii.

AmeriGas Propane’s retail gallons sold during Fiscal 2017 decreased 1.7% compared with Fiscal 2016. Average temperatures based upon heating degree days during Fiscal 2017 were significantly warmer than normal but slightly colder than Fiscal 2016. Although average temperatures during Fiscal 2017 were slightly colder than the prior year, the critical heating season months of January and February were approximately 9% warmer than during the same period of Fiscal 2016.

AmeriGas Propane’s retail propane revenues increased \$119.0 million during Fiscal 2017 reflecting the effects of higher average retail selling prices (\$154.3 million) partially offset by the lower retail volumes sold (\$35.3 million). Wholesale propane revenues increased \$11.4 million during Fiscal 2017 reflecting the effects of higher average wholesale selling prices (\$11.8 million) partially offset by lower wholesale volumes sold (\$0.4 million). Average daily wholesale propane commodity prices during Fiscal 2017 at Mont Belvieu, Texas, one of the major supply points in the U.S., were approximately 50% higher than such prices during Fiscal 2016 when commodity propane prices were at recent historic lows. Other revenues in Fiscal 2017 were slightly higher than in Fiscal 2016. AmeriGas Propane total cost of sales increased \$138.1 million principally reflecting the effects on propane cost of sales of higher average

propane product costs (\$150.1 million) reduced by the effects of the lower propane volumes sold (\$13.6 million). AmeriGas Propane total margin increased \$3.6 million in Fiscal 2017 as slightly lower retail propane total margin (\$5.7 million) was more than offset by higher non-propane total margin. The slight decrease in retail propane total margin principally reflects the decrease in retail gallons sold partially offset by slightly higher average retail unit margin.

38

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Table of Contents

AmeriGas Propane operating income in Fiscal 2017 was approximately equal to the prior year as lower Partnership operating and administrative expenses (\$13.7 million) and the slightly higher total margin (\$3.6 million) were offset by a decrease in other operating income (\$16.4 million). Partnership operating and administrative expenses in Fiscal 2017 were \$13.7 million lower than in Fiscal 2016 reflecting lower uninsured litigation and general insurance expenses (\$26.8 million), resulting in large part from the absence of a \$15.0 million accrual for a class action lawsuit recorded during the fourth quarter of Fiscal 2016, and lower group medical insurance expenses (\$9.8 million). These decreases in Partnership operating and administrative expenses were partially offset by higher vehicle expenses (\$7.8 million), higher bad debt expense (\$6.5 million), and a \$7.5 million environmental accrual associated with a former MGP site obtained in a prior year acquisition. The lower other operating income in Fiscal 2017 reflects, among other things, lower gains on asset sales (\$10.3 million), primarily resulting from an \$8.8 million adjustment recorded during the first quarter of Fiscal 2017 to correct previously recorded gains on sales of fixed assets, and lower fuel tax credits (\$2.8 million). Partnership Adjusted EBITDA increased \$8.3 million in Fiscal 2017 principally reflecting lower Fiscal 2017 Partnership operating and administrative costs which, for the calculation of Partnership Adjusted EBITDA exclude the \$7.5 million environmental accrual (\$21.2 million), and the slightly higher total margin (\$3.6 million) offset in part by the previously mentioned lower other operating income (\$16.4 million).

During Fiscal 2017, AmeriGas Partners recognized a pre-tax loss of \$59.7 million (a \$9.6 million after-tax loss attributable to UGI) associated with early extinguishments of debt. During Fiscal 2016, AmeriGas Partners recognized a pre-tax loss of \$48.9 million (a \$7.9 million after-tax loss attributable to UGI) associated with early extinguishments of debt. For further information on these transactions, see Note 5 to Consolidated Financial Statements.

UGI International	2017	2016	Increase (Decrease)	
(Dollars in millions)				
Revenues	\$1,877.5	\$1,868.8	\$8.7	0.5 %
Total margin (a)	\$942.2	\$965.0	\$(22.8)	(2.4)%
Operating and administrative expenses (b)	\$626.2	\$639.7	\$(13.5)	(2.1)%
Operating income (b)	\$195.7	\$206.6	\$(10.9)	(5.3)%
Income before income taxes (b)(c)	\$175.0	\$182.0	\$(7.0)	(3.8)%
Retail gallons sold (millions) (d)	827.9	820.5	7.4	0.9 %
UGI International degree days – % (warmer) than normal (e)	(4.5 )%	(12.9 )%	—	—

Total margin represents total revenues less total cost of sales. Total margin for Fiscal 2017 and Fiscal 2016 (a)excludes net pre-tax gains of \$19.0 million and \$31.8 million, respectively, on UGI International commodity derivative instruments not associated with current-period transactions.

(b) Includes Finagaz integration expenses in Fiscal 2017 and Fiscal 2016 of \$39.9 million and \$27.9 million, respectively.

(c)Fiscal 2017 excludes net pre-tax unrealized losses on certain foreign currency derivative contracts of \$23.8 million.

Retail gallons sold in Fiscal 2017 reflect a 30.7 million decline in autogas volumes principally as a result of exiting (d)the low-margin autogas business in Poland during Fiscal 2016. Retail gallons sold in Fiscal 2016 exclude retail gallons from operations in China, which were sold in March 2016.

(e) Deviation from average heating degree days for the 30-year period 1981-2010 at locations in our UGI International service territories.

Average temperatures during Fiscal 2017 at UGI International were approximately 4.5% warmer than normal but 9.7% colder than Fiscal 2016. Total retail gallons sold during Fiscal 2017 were slightly higher as the beneficial volume effects of the colder weather were substantially offset by a 30.7 million gallon decline in autogas volumes, principally as a result of exiting the low-margin, high-volume autogas business in Poland during Fiscal 2016, and lower crop-drying volumes as a result of a dry Fiscal 2017 crop season in France. During Fiscal 2017, average wholesale commodity prices for propane and butane in northwest Europe were approximately 34% and 29%, respectively, higher than in Fiscal 2016.



UGI International base-currency results are translated into U.S. dollars based upon exchange rates experienced during the reporting periods. The functional currency of a significant portion of our UGI International results is the euro and, to a much lesser extent, the British pound sterling. Although the British pound sterling and the euro during much of Fiscal 2017 were slightly weaker than during Fiscal 2016, the translation effects of these currencies did not negatively impact UGI International net income due to gains on foreign currency exchange contracts used to hedge a portion of U.S. dollar purchases of LPG.

UGI International revenues increased \$8.7 million during Fiscal 2017 as higher average bulk and cylinder LPG selling prices and the effects of the colder weather on bulk sales were substantially offset by the translation impact on revenues of the weaker British

Table of Contents

pound sterling and euro, the effects of exiting the low-margin autogas business in Poland and lower Fiscal 2017 wholesale sales. UGI International cost of sales increased \$31.5 million during Fiscal 2017 as the effects on cost of sales from the higher average LPG commodity costs and increase in bulk sales were partially offset by the translation impact from the weaker British pound sterling and the euro, the effects of the lower volumes associated with exiting the autogas business in Poland, and the effects of the lower wholesale sales.

UGI International total margin decreased \$22.8 million primarily reflecting (1) the translation effects of the weaker British pound sterling and euro; (2) slightly lower average retail bulk and cylinder LPG unit margins; and (3) the absence of margin from the autogas business in Poland. The slightly lower average retail bulk and cylinder LPG unit margins principally reflect the negative effects on current-year period unit margins of higher LPG commodity costs and the beneficial effects on prior-year unit margins of declining LPG wholesale commodity costs. These decreases in unit margin were partially offset by the increase in bulk sales resulting from the colder weather.

The \$10.9 million decrease in Fiscal 2017 UGI International operating income principally reflects the previously mentioned \$22.8 million decrease in total margin and a \$5.0 million increase in depreciation and amortization partially offset by a \$13.5 million decrease in operating and administrative expenses and a decrease in other operating expense. The decrease in operating and administrative expenses principally reflects lower operating and administrative costs in France resulting from expense synergies associated with the Finagaz integration and, to a much lesser extent, the translation effects of the weaker euro and British pound sterling offset, in part, by higher incremental Finagaz integration expenses. Operating and administrative expenses include \$39.9 million and \$27.9 million of Finagaz integration expenses in Fiscal 2017 and Fiscal 2016, respectively. The decrease in other operating expense reflects, in large part, the absence of a \$5.5 million loss recorded during Fiscal 2016 associated with interest rate hedge ineffectiveness. UGI International income before income taxes decreased \$7.0 million principally reflecting the previously mentioned \$10.9 million decrease in UGI International operating income offset by slightly lower interest expense due in large part to a lower Fiscal 2017 average interest rate on UGI France SAS's €600 million Senior Facilities Agreement term loan.

Midstream & Marketing	2017	2016	Increase (Decrease)	
(Dollars in millions)				
Revenues	\$1,121.2	\$866.6	\$254.6	29.4 %
Total margin (a)	\$264.5	\$264.4	\$0.1	— %
Operating and administrative expenses	\$95.6	\$90.9	\$4.7	5.2 %
Operating income	\$139.2	\$146.7	\$(7.5)	(5.1)%
Income before income taxes	\$141.4	\$144.6	\$(3.2)	(2.2)%

Total margin represents total revenues less total cost of sales. Total margin for Fiscal 2017 and Fiscal 2016 (a) excludes net pre-tax gains (losses) of \$55.7 and \$(6.3) million, respectively, on commodity derivative instruments not associated with current-period transactions.

Temperatures across Midstream & Marketing's energy marketing territory were 14.5% warmer than normal but 2.2% colder than in the prior year. Midstream & Marketing Fiscal 2017 revenues were \$254.6 million higher than in Fiscal 2016 principally reflecting higher natural gas revenues (\$262.9 million) and, to a much lesser extent, higher peaking revenues (\$15.5 million). The increase in natural gas revenues principally reflects higher average natural gas prices, higher natural gas volumes associated with customer growth, and the effects of the slightly colder weather, while the increase in peaking revenues reflects an increase in the number of peaking contracts. These increases in revenues were partially offset principally by lower capacity management and electric generation revenues. Midstream & Marketing cost of sales was \$856.7 million in Fiscal 2017 compared to \$602.2 million in Fiscal 2016, an increase of \$254.5 million, principally reflecting higher natural gas cost of sales primarily a result of the higher natural gas volumes and prices.

Midstream & Marketing total margin in Fiscal 2017 was about equal to the prior year as higher peaking total margin (\$15.0 million), higher natural gas gathering total margin (\$4.1 million), and higher natural gas total margin (\$3.3 million) were offset primarily by a decrease in total margin from capacity management (\$10.6 million), electricity

generation (\$6.3 million), and storage services (\$3.0 million). The increase in peaking total margin reflects an increase in the number of contracts while the higher natural gas gathering and natural gas total margin reflects higher activity. The decline in capacity management margin reflects higher fixed demand charges associated with higher capacity contract commitments partially offset by slightly higher prices for pipeline capacity during the Fiscal 2017 heating season. The lower electricity generation margin reflects lower electricity price spreads, slightly lower electricity generation volumes, and lower capacity revenue.

Midstream & Marketing operating income and income before income taxes during Fiscal 2017 decreased \$7.5 million and \$3.2 million, respectively. The decrease in operating income principally reflects higher depreciation expense (\$4.8 million) and an

Table of Contents

increase in operating and administrative expenses (\$4.7 million). These decreases were partially offset by a \$1.9 million increase in other operating income, primarily higher AFUDC associated with pipeline capital expenditures. The \$4.7 million increase in operating and administrative expenses reflects higher wage and benefits expense partially offset by lower Conemaugh and Hunlock electricity generating station operating and maintenance expenses, while the \$4.8 million increase in depreciation expense principally reflects incremental depreciation from the expansion of our natural gas pipeline and peaking assets. The decrease in income before income taxes in Fiscal 2017 reflects the lower operating income partially offset by \$4.3 million from our PennEast pipeline equity investment reflecting AFUDC income.

UGI Utilities	2017	2016	Increase (Decrease)	
(Dollars in millions)				
Revenues	\$887.6	\$768.5	\$119.1	15.5 %
Total margin (a)	\$515.6	\$473.9	\$41.7	8.8 %
Operating and administrative expenses	\$212.4	\$192.7	\$19.7	10.2 %
Operating income	\$228.3	\$200.9	\$27.4	13.6 %
Income before income taxes	\$188.1	\$163.3	\$24.8	15.2 %
Gas Utility system throughput – billions of cubic feet (“bcf”)				
Core market	70.4	66.2	4.2	6.3 %
Total	243.1	212.4	30.7	14.5 %
Electric Utility distribution sales - millions of kilowatt hours (“gwh”)	950.6	961.6	(11.0 )	(1.1 )%
Gas Utility degree days – % (warmer) than normal (b)	(11.1 )%	(13.6 )%	—	—

Total margin represents total revenues less total cost of sales and Electric Utility gross receipts taxes, of \$4.7 (a) million and \$4.8 million during Fiscal 2017 and Fiscal 2016, respectively. Gross receipt taxes are included in “Utility taxes other than income taxes” on the Consolidated Statements of Income.

(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 Fiscal 2017 were 11.1% warmer than normal but 2.6% colder than during Fiscal 2016. Gas Utility core market volumes increased 4.2 bcf (6.3%) principally reflecting the effects of the slightly colder Fiscal 2017 weather and growth in the number of core market customers. Total Gas Utility distribution system throughput increased 30.7 bcf reflecting significantly higher large firm delivery service volumes principally associated with service to a new natural gas-fired generation facility and the higher core market volumes. Gas Utility’s core market customers comprise firm- residential, commercial and industrial (“retail core-market”) customers who purchase their gas from Gas Utility and, to a much lesser extent, residential and small commercial customers who purchase their gas from others. These increases were partially offset by lower interruptible delivery service volumes. Electric Utility kilowatt-hour sales were 1.1% lower than in the prior year, principally reflecting the impact on air-conditioning sales from cooler summer temperatures.

UGI Utilities Fiscal 2017 revenues increased \$119.1 million reflecting a \$121.7 million increase in Gas Utility revenues partially offset by slightly lower Electric Utility revenues. The higher Gas Utility revenues principally reflect an increase in core market revenues (\$85.1 million), higher large firm delivery service revenues (\$14.3 million) and higher off-system sales revenues (\$25.0 million). The \$85.1 million increase in Gas Utility core market revenues reflects higher average retail core market PGC rates (\$37.0 million), the effects of the higher core market throughput (\$28.0 million) and the increase in UGI Gas base rates effective October 19, 2016 (\$20.1 million). The decrease in Electric Utility revenues principally reflects the lower Electric Utility volumes (\$1.8 million), slightly lower average default service (“DS”) rates (\$0.5 million) and lower transmission revenue (\$0.4 million). Because Gas Utility and Electric Utility are subject to reconcilable PGC and DS recovery mechanisms, increases or decreases in the actual cost of gas or electricity associated with customers who purchase their gas or electricity from UGI Utilities impact revenues and cost of sales but have no direct effect on retail core-market margin (see Note 8 to Consolidated Financial Statements for a discussion of these recovery mechanisms). UGI Utilities cost of sales was \$367.3 million in Fiscal

2017 compared with \$289.8 million in Fiscal 2016, principally reflecting higher average retail core market PGC rates (\$37.0 million), the higher Gas Utility retail core-market volumes (\$14.0 million) and higher cost of sales associated with Gas Utility off-system sales (\$25.0 million). The higher Gas Utility cost of sales is partially offset by a decrease in Electric Utility cost of sales of \$1.5 million reflecting the lower volumes sold and the slightly lower DS rates. UGI Utilities total margin increased \$41.7 million principally reflecting higher total margin from Gas Utility core market customers (\$32.7 million) and higher large firm delivery service total margin (\$11.4 million) partially offset by lower other margin. The

Table of Contents

increase in Gas Utility core market margin principally reflects the increase in UGI Gas base rates effective October 19, 2016 (\$20.1 million) and the higher core market throughput (\$12.6 million). Electric Utility total margin decreased \$0.8 million principally reflecting the lower volume sales and lower transmission revenue.

UGI Utilities Fiscal 2017 operating income increased \$27.4 million, principally reflecting the increase in total margin (\$41.7 million) and higher other operating income, net (\$10.3 million). These increases in operating income were reduced by higher operating and administrative expenses (\$19.7 million) and higher depreciation and amortization expense (\$5.0 million) associated with increased capital expenditure activity. The higher other operating income, net, reflects a \$5.8 million environmental insurance settlement, the absence of a charge recorded in the prior year related to environmental matters (\$2.5 million), and lower interest on PGC overcollections (\$1.6 million). The increase in UGI Utilities operating and administrative expenses in the current year reflects higher pension and employee benefits expenses (\$7.0 million), higher customer accounts expense (\$4.2 million) and higher regulatory asset amortization expense related to environmental remediation expenses (\$1.9 million). The increase in Fiscal 2017 operating and administrative expenses also reflects the fact that Fiscal 2016 expenses were reduced by the capitalization of \$5.4 million of development stage IT project costs that had been expensed in prior periods but qualified for capitalization during Fiscal 2016. UGI Utilities income before income taxes increased \$24.8 million reflecting the increase in UGI Utilities operating income (\$27.4 million) partially offset by higher interest expense.

**Interest Expense.** Our consolidated interest expense during Fiscal 2017 was \$223.5 million, \$5.4 million lower than the \$228.9 million of interest expense recorded during Fiscal 2016. The lower interest expense principally reflects lower average interest rates on long-term debt at UGI International and AmeriGas Propane. These decreases were partially offset by the effects of higher long-term debt outstanding at AmeriGas Propane and UGI Utilities.

**Income Taxes.** Our effective income tax rate as a percentage of pre-tax income (excluding the effects on such rate of pre-tax income associated with non-controlling interests not subject to federal income taxes) was 28.9% in Fiscal 2017 compared to 37.8% in Fiscal 2016. The lower effective tax rate in Fiscal 2017 principally reflects (1) a decrease in net deferred tax liabilities in France as a result of the reduction in the French statutory rate from 34.43% to 28.92% effective in Fiscal 2021 which reduced consolidated income tax expense during Fiscal 2017 by \$29.0 million; (2) the impact of excess tax benefits of \$10.3 million resulting from the adoption of new accounting guidance on share-based payments effective October 1, 2016 (see Note 3 to Consolidated Financial Statements); (3) the release of a \$7.6 million valuation allowance against future uses of foreign tax credit carryforwards; and (4) an income tax settlement refund of \$6.7 million, plus interest, in France.

## Fiscal 2016 Compared with Fiscal 2015

## Consolidated Results

## Net Income Attributable to UGI Corporation by Business Unit:

(Dollars in millions)	2016		2015		Variance - Favorable (Unfavorable)	
	Amount	% of Total	Amount	% of Total	Amount	% Change
AmeriGas Propane (a)	\$43.2	11.8 %	\$61.0	21.7 %	\$(17.8)	(29.2) %
UGI International (b)	111.6	30.6 %	52.7	18.8 %	58.9	111.8 %
UGI Utilities	97.4	26.7 %	121.1	43.1 %	(23.7)	(19.6) %
Midstream & Marketing	87.1	23.9 %	107.5	38.3 %	(20.4)	(19.0) %
Corporate & Other (c)	25.4	7.0 %	(61.3)	(21.9) %	86.7	N.M.
Net income attributable to UGI Corporation	\$364.7	100.0 %	\$281.0	100.0 %	\$83.7	29.8 %

(a) Fiscal 2016 includes an after-tax loss of \$7.9 million associated with extinguishments of debt.

Fiscal 2016 includes after-tax integration expenses associated with Finagaz of \$17.3 million. Fiscal 2015 includes (b) net after-tax costs of \$4.6 million associated with an extinguishment of debt at Antargaz and after-tax integration and acquisition expenses associated with Finagaz of \$14.9 million.

(c) Includes net after-tax gains (losses) on commodity derivative instruments not associated with current-period transactions of \$29.9 million and \$(53.3) million in Fiscal 2016 and Fiscal 2015, respectively.

N.M. — Variance is not meaningful.

42

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Table of Contents

## Fiscal 2016 Highlights

Fiscal 2016 includes net after-tax gains on commodity derivative instruments not associated with current-period transactions of \$29.9 million (equal to \$0.17 per diluted share). Fiscal 2015 includes net after-tax losses on commodity derivative instruments not associated with current-period transactions of \$53.3 million (equal to \$0.30 per diluted share).

Fiscal 2016 and Fiscal 2015 reflect net after-tax integration expenses associated with Finagaz, which decreased net income attributable to UGI by \$17.3 million (equal to \$0.10 per diluted share) and \$14.9 million (equal to \$0.08 per diluted share), respectively.

Fiscal 2016 and Fiscal 2015 include after-tax losses on extinguishments of debt of \$7.9 million (equal to \$0.04 per diluted share) and \$4.6 million (equal to \$0.03 per diluted share), respectively.

Fiscal 2016 results at each of our business units was negatively impacted by temperatures that were significantly warmer than normal and, with respect to UGI's domestic business units, significantly warmer than in Fiscal 2015. UGI International Fiscal 2016 net income (excluding the impacts of integration and acquisition expenses associated with Finagaz in Fiscal 2016 and Fiscal 2015 and the impact of costs associated with an extinguishment of debt in Fiscal 2015) improved significantly reflecting in large part the full-year operations of Finagaz, which was acquired in May 2015, and higher average unit margins.

Midstream & Marketing Fiscal 2016 results were negatively affected by the warmer weather in the Mid-Atlantic region of the U.S. and the impact of lower prices for capacity management as the milder weather reduced capacity spreads between Marcellus and non-Marcellus locations. These decreases in margin were partially offset by slightly higher income from our natural gas gathering and peaking contracts.

Notwithstanding the significant impact on AmeriGas Propane of the significantly warmer Fiscal 2016 heating-season weather, the Partnership benefited from a \$24.5 million reduction in operating and administrative costs as a result of successful execution of its warm weather plan.

Although the euro and British pound sterling were slightly weaker during Fiscal 2016, the effects of the weaker currencies did not have a material impact on UGI International net income, and did not negatively impact year-over-year net income due to higher gains on foreign currency exchange contracts used to hedge a portion of U.S. dollar purchases of LPG.

Notwithstanding a decline in total margin as a result of significantly warmer weather, UGI Utilities benefited from lower operating and administrative expenses in Fiscal 2016.

AmeriGas Propane (Dollars in millions)	2016	2015	Decrease
Revenues	\$2,311.8	\$2,885.3	\$(573.5) (19.9)%
Total margin (a)	\$1,447.0	\$1,545.3	\$(98.3) (6.4)%
Partnership operating and administrative expenses	\$928.8	\$953.3	\$(24.5) (2.6)%
Partnership Adjusted EBITDA (b)	\$543.0	\$619.2	\$(76.2) (12.3)%
Operating income	\$356.3	\$427.6	\$(71.3) (16.7)%
Retail gallons sold (millions)	1,065.5	1,184.3	(118.8) (10.0)%
Degree days – % (warmer) than normal (c)	(15.0)%	(2.9)%	—

Total margin represents total revenues less total cost of sales. Total margin for Fiscal 2016 and Fiscal 2015 (a) excludes net pre-tax gains (losses) of \$66.1 million and \$(47.8) million, respectively, on commodity derivative instruments not associated with current-period transactions.

Partnership Adjusted EBITDA should not be considered as an alternative to net income (as an indicator of operating performance) and is not a measure of performance or financial condition under GAAP. Management uses (b) Partnership Adjusted EBITDA as the primary measure of segment profitability for the AmeriGas Propane segment (see Note 21 to Consolidated Financial Statements).

(c) Deviation from average heating degree days for the 30-year period 1981-2010 based upon national weather statistics provided by NOAA for 344 Geo regions in the United States, excluding Alaska and Hawaii.





Table of Contents

AmeriGas Propane's retail gallons sold during Fiscal 2016 decreased 10.0% compared with Fiscal 2015. The decline in retail gallons sold principally reflects average temperatures based upon heating degree days that were 15.0% warmer than normal and 12.5% warmer than in Fiscal 2015.

Retail propane revenues decreased \$546.9 million during Fiscal 2016 reflecting lower average retail selling prices (\$289.0 million), principally the result of lower propane product costs, and the effects of the lower retail volumes sold (\$257.9 million). Wholesale propane revenues decreased \$12.4 million during Fiscal 2016 reflecting the effects of lower wholesale selling prices (\$8.8 million) and lower wholesale volumes sold (\$3.6 million). Average daily wholesale propane commodity prices during Fiscal 2016 at Mont Belvieu, Texas, one of the major supply points in the U.S., were approximately 18% lower than such prices during Fiscal 2015. Other revenues in Fiscal 2016 were \$14.2 million lower than in the prior year principally reflecting lower fee income. Total cost of sales decreased \$475.2 million during Fiscal 2016 principally reflecting the effects on propane cost of sales of the significantly lower average propane product costs (\$342.2 million) and the effects of the lower retail and wholesale volumes sold (\$125.2 million).

AmeriGas Propane total margin decreased \$98.3 million in Fiscal 2016 principally reflecting lower retail propane total margin (\$91.9 million) and, to a much lesser extent, lower margin from ancillary sales and services. The decrease in retail propane total margin largely reflects the previously mentioned decline in retail gallons sold partially offset by higher average propane retail unit margin principally resulting from the benefits of declining wholesale propane commodity prices.

Partnership Adjusted EBITDA in Fiscal 2016 decreased \$76.2 million principally reflecting the lower total margin of \$98.3 million partially offset by lower Partnership operating and administrative expenses (\$24.5 million). The decrease in operating and administrative expenses reflects, among other things, lower vehicle fuel (\$13.4 million), employee compensation and benefits (\$21.7 million), and uncollectible accounts (\$4.6 million) expenses. Partially offsetting these decreases in operating and administrative expenses were higher expenses associated with uninsured litigation matters (\$17.9 million). AmeriGas Propane operating income decreased \$71.3 million in Fiscal 2016 principally reflecting the lower Partnership Adjusted EBITDA (\$76.2 million) partially offset by slightly lower depreciation expense.

UGI International (Dollars in millions)	2016	2015	Increase		
Revenues	\$1,868.8	\$1,808.5	\$60.3	3.3	%
Total margin (a)	\$965.0	\$688.5	\$276.5	40.2	%
Operating and administrative expenses (b)	\$639.7	\$493.7	\$146.0	29.6	%
Operating income	\$206.6	\$112.8	\$93.8	83.2	%
Income before income taxes (c)	\$182.0	\$76.4	\$105.6	138.2	%
Retail gallons sold (millions) (d)	820.5	697.0	123.5	17.7	%
UGI International degree days - % (warmer) than normal (e)	(12.9 )%	(11.2 )%	—	—	

Total margin represents total revenues less total cost of sales. Total margin for Fiscal 2016 and Fiscal 2015

(a) excludes net pre-tax gains (losses) of \$31.8 million and \$(28.4) million on UGI International's commodity derivative instruments not associated with current-period transactions, respectively.

(b) Includes Finagaz integration and acquisition-related expenses in Fiscal 2016 and Fiscal 2015 of \$27.9 million and \$22.6 million, respectively.

(c) Fiscal 2015 income before income taxes is net of \$10.3 million of costs associated with an extinguishment of debt at Antargaz which are reflected in interest expense.

(d) Excludes retail gallons from operations in China, which was sold in March 2016.

(e) Deviation from average heating degree days for the 30-year period 1981-2010 at locations in our UGI International service territories.

UGI International's Fiscal 2016 results include the full-year results of Finagaz, which was acquired on May 29, 2015. The acquisition of Finagaz nearly doubled our retail distribution business in France and is a significant contributor to the variances in the table above.

Based upon heating degree day data, temperatures during Fiscal 2016 were significantly warmer than normal and slightly warmer than in Fiscal 2015. Total retail gallons sold during Fiscal 2016 were significantly higher, notwithstanding the warmer weather, principally reflecting incremental retail LPG gallons associated with Finagaz and, to a much lesser extent, retail gallons associated

Table of Contents

with small-scale acquisitions at Flaga GmbH (“Flaga”) and AvantiGas Limited (“AvantiGas”). Partially offsetting these increases was the impact on retail volumes of exiting the low-margin autogas business in Poland (69.4 million gallons). During Fiscal 2016, average wholesale commodity prices for both propane and butane in northwest Europe were approximately 20% lower than during Fiscal 2015. Much of the lower wholesale commodity cost occurred during the early part of Fiscal 2016.

UGI International base-currency results are translated into U.S. dollars based upon exchange rates experienced during the reporting periods. The functional currency of a significant portion of our UGI International results is the euro and, to a much lesser extent, the British pound sterling. During Fiscal 2016 and Fiscal 2015, the average un-weighted euro-to-dollar translation rates were approximately \$1.11 and \$1.15, respectively, and the average unweighted British pound sterling-to-dollar translation rates were approximately \$1.42 and \$1.55, respectively. Although the euro and the British pound sterling were weaker during Fiscal 2016 and affect the comparisons of amounts in the table above, these weaker currencies did not negatively impact UGI International net income due to higher gains on foreign currency exchange contracts used to hedge a portion of U.S. dollar purchases of LPG.

UGI International revenues increased \$60.3 million during Fiscal 2016 principally reflecting incremental revenues from Finagaz and, to a much lesser extent, incremental revenues associated with small-scale acquisitions at Flaga and AvantiGas. These increases in revenues were substantially offset by lower average LPG selling prices at each of our legacy European LPG businesses and, to a lesser extent, the impact of exiting the low-margin autogas business in Poland and the effects of the weaker euro and the British pound sterling. The lower average LPG sales prices in Fiscal 2016 resulted from lower average LPG wholesale commodity prices. UGI International cost of sales decreased \$216.2 million during Fiscal 2016 principally reflecting the effects of lower average LPG wholesale commodity prices and, to a much lesser extent, the absence of certain low-margin autogas volumes in Poland, the effects of the weaker euro and the British pound sterling, and higher gains from foreign currency exchange contracts used to hedge a portion of U.S. dollar purchases of LPG. These decreases in cost of sales were partially offset by incremental cost of sales associated with Finagaz.

UGI International total margin increased \$276.5 million primarily reflecting incremental local-currency margin from the full-year results of Finagaz and, to a much lesser extent, higher average unit margins and the impact of the small-scale acquisitions at Flaga and AvantiGas. The higher average unit margins at our legacy UGI France and Flaga businesses reflect the benefits of declining LPG wholesale commodity costs and effective margin management. The impact of the slightly higher local currency total margin was partially offset by the effects on such margin of the weaker euro and the British pound sterling.

The \$93.8 million increase in UGI International operating income principally reflects the previously mentioned \$276.5 million increase in total margin partially offset by a \$146.0 million increase in operating and administrative expenses, a \$25.5 million increase in depreciation and amortization expense, and, to a much lesser extent, lower other operating income. The higher operating and administrative expenses and depreciation and amortization expense primarily reflects incremental expenses associated with Finagaz and, to a much lesser extent, small-scale acquisitions at Flaga and AvantiGas partially offset by the translation effects of the weaker euro and British pound sterling. Operating and administrative costs include \$27.9 million and \$22.6 million of Finagaz integration and acquisition-related expenses in Fiscal 2016 and Fiscal 2015, respectively. UGI International income before income taxes increased \$105.6 million principally reflecting the previously mentioned \$93.8 million increase in UGI International operating income and the absence of \$10.3 million in costs recorded in the prior year associated with an extinguishment of debt at Antargaz which are reflected in interest expense. Excluding these costs, UGI International interest expense in Fiscal 2016 was slightly lower as higher average long-term debt outstanding at UGI France resulting from the acquisition of Finagaz was more than offset by lower average interest rates on UGI International’s long-term debt and the translation effects of the weaker euro.

Midstream & Marketing	2016	2015	Decrease
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(Dollars in millions)

Revenues	\$866.6	\$1,163.6	\$(297.0)	(25.5)%
Total margin (a)	\$264.4	\$309.0	\$(44.6)	(14.4)%
Operating and administrative expenses	\$90.9	\$98.6	\$(7.7)	(7.8)%
Operating income	\$146.7	\$182.6	\$(35.9)	(19.7)%
Income before income taxes	\$144.6	\$180.5	\$(35.9)	(19.9)%

Total margin represents total revenues less total cost of sales. Amounts exclude net pre-tax losses on commodity (a) derivative instruments not associated with current-period transactions of \$6.3 million and \$42.9 million during Fiscal 2016 and Fiscal 2015, respectively.

Midstream & Marketing's Fiscal 2016 results were negatively impacted by significantly warmer weather in its principal Mid-Atlantic and Northeast U.S. service territory. Temperatures across Midstream & Marketing's energy marketing territory were approximately 17.8% warmer than normal in Fiscal 2016 compared to temperatures that were 4.5% colder than normal in Fiscal

Table of Contents

2015. Midstream & Marketing's Fiscal 2016 revenues were \$297.0 million lower than in Fiscal 2015 principally reflecting lower natural gas revenues (\$240.0 million), lower capacity management revenues (\$41.7 million), lower retail power revenues (\$19.5 million) and, to a lesser extent, lower electric generation and HVAC revenues. These decreases in revenues were partially offset by higher combined peaking and natural gas gathering revenues (\$27.8 million). The significant decrease in natural gas revenues reflects lower wholesale and retail natural gas prices during Fiscal 2016 and, to a lesser extent, lower natural gas volumes resulting from the warmer weather. The lower retail power revenues principally reflect lower weather-related sales volumes and lower retail power prices. The decline in capacity management revenues reflects lower average prices for capacity as Fiscal 2016 experienced lower locational basis differences due to less volatility in capacity values between Marcellus and non-Marcellus delivery points. The decline in electric generation revenues reflects lower average electricity prices and lower electricity production volumes during Fiscal 2016, due in large part to the effects of the warmer winter weather and the impact of planned outages, while the decline in HVAC revenues principally reflects lower activity. The decrease in Midstream & Marketing cost of sales principally reflects lower natural gas cost of sales (\$227.8 million) reflecting lower natural gas prices, lower cost of sales associated with the decline in retail power sales (\$17.8 million) and, to a lesser extent, lower electric generation and HVAC cost of sales.

Midstream & Marketing total margin decreased \$44.6 million in Fiscal 2016 principally reflecting lower capacity management total margin (\$41.7 million), lower natural gas and retail power total margin (\$14.9 million), lower electric generation total margin (\$9.4 million) and lower HVAC total margin. These decreases in margin were partially offset by slightly higher combined natural gas gathering and peaking total margin (\$27.5 million) reflecting the expansion of our natural gas gathering assets and higher demand for peaking services. As previously mentioned, the lower capacity management margin in Fiscal 2016 reflects lower average prices for capacity as a result of lower locational basis differences in capacity values between Marcellus and non-Marcellus delivery points. The decline in natural gas marketing total margin principally reflects the effects of lower average unit margins and lower volumes sold due to the warmer weather. The decline in electric generation total margin reflects lower average electricity prices and lower electricity production volumes.

Midstream & Marketing operating income and income before income taxes during Fiscal 2016 each decreased \$35.9 million principally reflecting the previously mentioned decrease in total margin (\$44.6 million) partially offset by slightly lower operating and administrative expenses and higher other operating income. Operating and administrative expenses were slightly lower in Fiscal 2016 due in large part to lower operating expenses in the HVAC business (\$5.0 million) on lower Fiscal 2016 activity and greater costs in the prior year associated with our electricity generation facilities. Depreciation expense was slightly higher in Fiscal 2016 principally reflecting incremental depreciation expense associated with our natural gas gathering assets and the Conemaugh electricity generating unit.

UGI Utilities (Dollars in millions)	2016	2015 (a)	Decrease
Revenues	\$768.5	\$1,041.6	\$(273.1) (26.2)%
Total margin (b)	\$473.9	\$525.2	\$(51.3) (9.8)%
Operating and administrative expenses	\$192.7	\$218.3	\$(25.6) (11.7)%
Operating income	\$200.9	\$241.7	\$(40.8) (16.9)%
Income before income taxes	\$163.3	\$200.6	\$(37.3) (18.6)%
Gas Utility system throughput – billions of cubic feet (“bcf”)			
Core market	66.2	81.3	(15.1) (18.6)%
Total	212.4	213.5	(1.1) (0.5)%
Electric Utility distribution sales - millions of kilowatt hours (“gwh”)	961.6	1,010.1	(48.5) (4.8)%
Gas Utility degree days – % (warmer) colder than normal (c)	(13.6)%	6.4%	—

(a) Includes amounts associated with PNG Gas' heating, ventilation and air-conditioning service business through the date of its sale in June 2015. Such amounts are not material.

(b)

Total margin represents total revenues less total cost of sales and Electric Utility gross receipts taxes, of \$4.8 million and \$5.6 million during Fiscal 2016 and Fiscal 2015, respectively. Gross receipt taxes are included in “Utility taxes other than income taxes” on the Consolidated Statements of Income.

(c) 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 Fiscal 2016 based upon heating degree days were 13.6% warmer than normal and 17.8% warmer than Fiscal 2015. In particular, Gas Utility temperatures in the critical heating-season month of December were

Table of Contents

37% warmer than normal. Gas Utility core market volumes declined 15.1 bcf (18.6%) reflecting the effects of the significantly warmer weather. Total Gas Utility Fiscal 2016 distribution system throughput was about equal to Fiscal 2015 as the lower core market volumes were substantially offset by higher large firm delivery service volumes. Electric Utility kilowatt-hour sales were 4.8% lower than in the prior year principally reflecting the impact of the warmer weather on heating-related sales.

UGI Utilities Fiscal 2016 revenues decreased \$273.1 million principally reflecting a \$255.7 million decrease in Gas Utility revenues and a \$16.5 million decrease in Electric Utility revenues. The lower Gas Utility revenues principally reflect a decrease in core market revenues (\$203.1 million) and lower off-system sales revenues (\$51.4 million). The \$203.1 million decrease in Fiscal 2016 Gas Utility core market revenues reflects the effects of the lower core market throughput (\$135.4 million) and lower average PGC rates (\$67.7 million). The lower Electric Utility revenues principally resulted from lower DS rates (\$8.0 million), lower sales volumes (\$5.4 million) and lower transmission revenue (\$2.6 million). UGI Utilities cost of sales was \$289.8 million in Fiscal 2016 compared with \$510.8 million in Fiscal 2015 principally reflecting the combined effects of the lower average Gas Utility PGC rates (\$92.3 million), lower cost of sales associated with Gas Utility off-system sales (\$51.4 million) and lower Gas Utility retail core-market volumes sold (\$67.5 million). Electric Utility cost of sales was \$11.5 million lower reflecting the lower DS rates (\$8.5 million) and the lower volumes sold.

UGI Utilities Fiscal 2016 total margin decreased \$51.3 million principally reflecting lower Gas Utility total margin from core market customers (\$43.3 million). The decrease in Gas Utility core market margin reflects the lower core market throughput. Electric Utility total margin decreased \$4.2 million principally reflecting the lower volume sales as a result of the warmer Fiscal 2016 weather and the lower transmission revenue.

UGI Utilities Fiscal 2016 operating income and income before income taxes decreased \$40.8 million and \$37.3 million, respectively. The decreases in operating income and income before income taxes principally reflects the decrease in total margin (\$51.3 million), higher depreciation expense (\$4.4 million) and lower other operating income (\$10.9 million) which includes, among other things, higher environmental matters expense (\$4.1 million), lower margin from off-system sales (\$2.2 million), lower revenue from construction services (\$2.1 million) and higher interest on PGC overcollections (\$1.1 million). These were partially offset by operating and administrative expenses that were \$25.6 million lower than the prior year primarily reflecting lower net preliminary development stage expenses associated with an IT project (\$8.6 million), including the year-over-year impact of the Fiscal 2016 capitalization of \$5.4 million of such IT costs expensed in prior years (see Note 8 to Consolidated Financial Statements), and, to a lesser extent, lower uncollectible accounts (\$5.7 million), system maintenance expenses (\$4.8 million) and employee benefits (\$4.7 million). The decrease in income before income taxes also reflects lower interest expense principally due to lower average long-term debt outstanding and lower average interest rates.

Interest Expense. Our consolidated interest expense during Fiscal 2016 was \$227.8 million, \$14.1 million lower than the \$241.9 million of interest expense recorded during Fiscal 2015. Interest expense in Fiscal 2015 includes \$10.3 million of costs associated with an extinguishment of debt at Antargaz. Excluding the impact of these debt extinguishment costs, consolidated interest expense was \$3.8 million lower principally reflecting UGI Utilities' lower average long-term debt outstanding and lower average interest rates. Notwithstanding higher average long-term debt outstanding at UGI International in Fiscal 2016 resulting from the May 2015 acquisition of Finagaz, UGI International interest expense, excluding the impact of the debt extinguishment costs, was about equal to Fiscal 2015 reflecting lower average interest rates.

Income Taxes. Our effective income tax rate as a percentage of pre-tax income for Fiscal 2016 (excluding the effects on such rate of pre-tax income associated with noncontrolling interests not subject to federal income taxes) was 37.8%, slightly below the 38.8% rate in Fiscal 2015. The lower effective tax rate in Fiscal 2016 includes, among other things, the elimination of certain deferred tax valuation allowances associated with state loss carryforwards.

### Financial Condition and Liquidity

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, from a receivables purchase facility (“Receivables Facility”). Long-term cash requirements are generally met through 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 borrowings; 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 subsidiaries by its principal business units. Our cash and cash equivalents totaled \$558.4 million at September 30, 2017, compared with \$502.8 million at September 30, 2016. Excluding cash and cash equivalents that reside at UGI’s operating subsidiaries, at September 30,

Table of Contents

2017 and 2016, UGI had cash and cash equivalents of \$291.1 million and \$125.7 million, respectively, a substantial portion of which are located in the U.S. Such cash is available to pay dividends on UGI Common Stock and for investment purposes.

AmeriGas Propane's ability to pay dividends to UGI is dependent upon distributions it receives from AmeriGas Partners. At September 30, 2017, our 27% effective ownership interest in the Partnership consisted of approximately 23.8 million Common Units and an aggregate 2% general partner interest. Approximately 45 days after the end of each fiscal quarter, the Partnership distributes all of its Available Cash (as defined in the Fourth Amended and Restated Agreement of Limited Partnership of AmeriGas Partners, as amended (the "Partnership Agreement")) relating to such fiscal quarter. AmeriGas Propane, as general partner of AmeriGas Partners, is entitled to receive incentive distributions when AmeriGas Partners' quarterly distribution exceeds \$0.605 per limited partner unit. During Fiscal 2017, Fiscal 2016 and Fiscal 2015, the total amount of distributions received by the General Partner with respect to its aggregate 2% general partner ownership interests in the Partnership totaled \$52.7 million, \$47.4 million and \$39.3 million, respectively. Included in these amounts are incentive distributions received by the General Partner during Fiscal 2017, Fiscal 2016 and Fiscal 2015 of \$43.5 million, \$38.2 million and \$30.4 million, respectively (see Note 14 to Consolidated Financial Statements).

During Fiscal 2017, Fiscal 2016 and Fiscal 2015, our principal business units paid cash dividends and made other cash payments to UGI and its subsidiaries as follows:

Year Ended September 30,	2017	2016	2015
(Millions of dollars)			
AmeriGas Propane	\$123.0	\$107.0	\$97.3
UGI Utilities	57.7	47.0	65.6
UGI International	118.3	98.4	31.3
Midstream & Marketing (a)	—	—	60.0
Total	\$299.0	\$252.4	\$254.2

(a) Cash dividends received from Midstream & Marketing in Fiscal 2015 were used to fund a portion of the Totalgaz Acquisition. See Note 4 to Consolidated Financial Statements.

**Dividends and Distributions**

On April 25, 2017, UGI's Board of Directors approved an increase in the quarterly dividend rate on UGI Common Stock to \$0.25 per Common Share, equal to \$1.00 on an annualized basis. The dividend rate reflects an approximately 5.3% increase from the previous quarterly rate of \$0.2375. The new quarterly dividend rate was effective with the dividend payable on July 1, 2017, to shareholders of record on June 15, 2017.

On April 24, 2017, the General Partner's Board of Directors approved an increase in the quarterly distribution rate on AmeriGas Partners Common Units to \$0.95 per Common Unit, equal to \$3.80 per Common Unit on an annualized basis. The distribution rate reflects a 1.1% increase from the previous quarterly rate of \$0.94. The new quarterly rate was effective with the distribution payable on May 18, 2017, to unitholders of record on May 10, 2017.

**Repurchases of Common Stock**

In January 2014, the UGI Board of Directors authorized a share repurchase program for up to 15 million shares of UGI Corporation Common Stock. The authorization permits the execution of the share repurchase program over a four-year period. Pursuant to such authorization, during Fiscal 2017, Fiscal 2016 and Fiscal 2015, the Company purchased on the open market 0.9 million, 1.25 million and 1.0 million shares at a total purchase price of \$43.3 million, \$47.6 million and \$34.1 million, respectively.

Table of Contents

## Long-term Debt and Credit Facilities

The Company's debt outstanding at September 30, 2017 and 2016, comprises the following:

	2017						2016
(millions of dollars)	AmeriGas Propane	UGI International	Midstream & Marketing	UGI Utilities	Other	Total	Total
Short-term borrowings	\$ 140.0	\$ 17.9	\$ 39.0	\$ 170.0	\$ —	\$ 366.9	\$ 291.7
Long-term debt (including current maturities):							
Senior notes	\$ 2,575.0	\$ —	\$ —	\$ 675.0	\$ —	\$ 3,250.0	\$ 2,905.8
Term loans	—	822.1	—	80.0	—	902.1	884.9
Other long-term debt	28.6	21.3	0.5	—	9.4	59.8	41.6
Unamortized debt issuance costs	(31.3 )	(4.6 )	—	(3.9 )	—	(39.8 )	(36.8 )
Total long-term debt	\$ 2,572.3	\$ 838.8	\$ 0.5	\$ 751.1	\$ 9.4	\$ 4,172.1	\$ 3,795.5
Total debt	\$ 2,712.3	\$ 856.7	\$ 39.5	\$ 921.1	\$ 9.4	\$ 4,539.0	\$ 4,087.2
Long-term Debt							

AmeriGas Partners. During Fiscal 2017, AmeriGas Partners issued, in underwritten offerings, \$700 million principal amount of 5.50% Senior Notes due May 2025 and \$525 million principal amount of 5.75% Senior Notes due May 2027 (collectively, the "AmeriGas 2017 Senior Notes"). The net proceeds from the issuance of the AmeriGas 2017 Senior Notes were used (1) for the early repayment, pursuant to tender offers and notices of redemption, of all of AmeriGas Partners' 7.00% Senior Notes, having an aggregate principal balance of \$980.8 million plus accrued and unpaid interest and early redemption premiums, and (2) for general corporate purposes.

UGI Utilities. Pursuant to a note purchase agreement, in October 2016, UGI Utilities issued \$100 million aggregate principal amount of 4.12% Senior Notes due October 2046 (the "UGI Utilities 4.12% Senior Notes"). The net proceeds of the issuance of the UGI Utilities 4.12% Senior Notes were used (1) to provide additional financing for UGI Utilities infrastructure replacement and betterment capital program and IT initiatives, and (2) for general corporate purposes.

On October 31, 2017, UGI Utilities entered into a \$125 million unsecured term loan (the "Utilities Term Loan") with a group of banks which initially matures on October 30, 2018. Such maturity will be automatically extended to October 30, 2022 once UGI Utilities delivers to the agent a copy of the securities certificate registered with the PUC authorizing UGI Utilities' incurring indebtedness with such maturity date. Proceeds from the Utilities Term Loan were used to repay revolving credit balances and for general corporate purposes. The outstanding principal amount of the Utilities Term Loan is payable in equal quarterly installments of \$1.6 million with the balance of the principal being due and payable in full on the maturity date.

For detailed information on the Company's short-term and long-term borrowings, see Note 5 to Consolidated Financial Statements.

## Short-term Debt

Due to the seasonal nature of the Company's businesses, cash provided by operating activities is 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, cash from operating activities is generally at its lowest levels during the first and fourth fiscal quarters when the Company's investment in working capital, principally inventories and accounts receivable, is generally greatest. AmeriGas Propane and UGI Utilities primarily use their credit facilities to satisfy their seasonal operating cash flow needs. Energy Services, LLC has historically used its Receivables Facility to satisfy much of its seasonal operating cash flow needs. Energy Services, LLC also has a \$240 million credit facility, which it can use for general corporate purposes. UGI International

principally uses borrowings under credit agreements and cash on hand to satisfy its operating cash flow needs. Borrowings under the credit facilities and the Energy Services, LLC's Receivables Facility are classified as "Short-term borrowings" on the Consolidated Balance Sheets. See Note 5 to Consolidated Financial Statements for further information on the Company's short-term credit facilities.

Table of Contents

Information about the Company's principal credit agreements (excluding Energy Services, LLC's Receivables Facility, which is discussed below) as of September 30, 2017 and 2016, is presented in the tables below.

(Millions of dollars or euros)	Expiration Date	Total Capacity	Borrowings Outstanding	Letters of Credit and Guarantees Outstanding	Available Borrowing Capacity	Weighted Average Interest Rate - End of Year
<b>September 30, 2017</b>						
AmeriGas OLP	June 2019	\$ 525.0	\$ 140.0	\$ 67.2	\$ 317.8	3.74 %
UGI France SAS	April 2020	€ 60.0	—	—	€ 60.0	N.A.
Flaga (a)	October 2020	€ 55.0	—	€ 6.5	€ 48.5	N.A.
Energy Services, LLC	March 2021	\$ 240.0	—	—	\$ 240.0	N.A.
UGI Utilities	March 2020	\$ 300.0	\$ 170.0	\$ 2.0	\$ 128.0	2.11 %
<b>September 30, 2016</b>						
AmeriGas OLP	June 2019	\$ 525.0	\$ 153.2	\$ 67.2	\$ 304.6	2.79 %
UGI France SAS	April 2020	€ 60.0	—	—	€ 60.0	N.A.
Flaga (a)	October 2020	€ 55.0	—	€ 9.6	€ 45.4	N.A.
Energy Services, LLC	March 2021	\$ 240.0	\$ —	—	\$ 240.0	N.A.
UGI Utilities	March 2020	\$ 300.0	\$ 112.5	\$ 2.0	\$ 185.5	1.42 %

Total capacity comprises a €25 million multi-currency revolving credit facility, a €5 million overdraft facility and a (a)€25 million guarantee facility. Guarantees outstanding reduce the available capacity on the €25 million guarantee facility.

The average daily and peak short-term borrowings under the Company's principal credit agreements during Fiscal 2017 and Fiscal 2016 are as follows:

(Millions of dollars or euros)	2017		2016	
	Average	Peak	Average	Peak
AmeriGas OLP	\$89.3	\$292.5	\$99.0	\$249.0
UGI France SAS	€—	€—	€—	€—
Flaga	€—	€—	€—	€—
Energy Services, LLC	\$8.0	\$28.0	\$23.6	\$81.0
UGI Utilities	\$80.7	\$178.0	\$150.8	\$232.0

Energy Services, LLC also has a Receivables Facility with an issuer of receivables-backed commercial paper. On October 27, 2017, the expiration date of the Receivables Facility was extended to October 26, 2018. The Receivables Facility, as amended, provides Energy Services with the ability to borrow up to \$150 million of eligible receivables during the period November through April, and up to \$75 million of eligible receivables during the period May through 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.

At September 30, 2017, the outstanding balance of trade receivables was \$44.8 million of which \$39.0 million was sold to the bank. At September 30, 2016, the outstanding balance of trade receivables was \$35.7 million of which \$25.5 million was sold to the bank. Amounts sold to the bank are reflected as "Short-term borrowings" on the Consolidated Balance Sheet (see Note 5 to Consolidated Financial Statements). During Fiscal 2017 and Fiscal 2016, peak sales of receivables were \$49.0 million and \$46.0 million, respectively, and average daily amounts sold were \$14.0 million and \$14.4 million, respectively.

**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.

50

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Table of Contents

## 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 flows from operating activities in Fiscal 2017, Fiscal 2016 and Fiscal 2015 were \$964.4 million, \$969.7 million and \$1,163.8 million, respectively. Cash flow from operating activities before changes in operating working capital was \$1,133.0 million in Fiscal 2017, \$926.6 million in Fiscal 2016 and \$972.0 million in Fiscal 2015. The higher cash flow before changes in operating working capital in Fiscal 2017 reflects the higher net income (after adjusting net income for the noncash effects of unrealized gains and losses on derivative instruments and loss on extinguishment of debt) and the absence of a \$36.0 million cash settlement on interest rate protection agreements at UGI Utilities recorded in Fiscal 2016. The slightly lower Fiscal 2016 cash flow from operating activities before changes in operating working capital compared to Fiscal 2015 principally reflects the effects of lower net income (after adjusting net income for the noncash effects of unrealized gains and losses on derivative instruments and the loss on extinguishment of debt at AmeriGas Partners) and the \$36.0 million interest rate agreements settlement at UGI Utilities partially offset by higher noncash charges for deferred income taxes and depreciation and amortization. Changes in operating working capital (used) provided operating cash flow of \$(168.6) million in Fiscal 2017, \$43.1 million in Fiscal 2016 and \$191.8 million in Fiscal 2015. Cash flow from changes in operating working capital principally reflect the impact of energy commodity prices on changes in accounts receivable, inventories and accounts payable. The higher cash used to fund changes in operating working capital in Fiscal 2017 reflects in large part the impact of increases in LPG and natural gas prices. The significantly higher cash provided by net changes in accounts receivable, inventories and accounts payable in Fiscal 2015 reflects, in large part, the impact of significant declines in LPG and natural gas costs in Fiscal 2015. In addition, cash flow from changes in operating working capital include net refunds of UGI Utilities purchased gas and electricity costs of \$15.4 million in Fiscal 2017 and \$22.7 million in Fiscal 2016, and net overcollections of \$51.8 million in Fiscal 2015.

## Investing Activities:

Investing activity cash flow is principally affected by cash expenditures for property, plant and equipment; cash paid for acquisitions of businesses; changes in restricted cash balances and net cash proceeds from sales and retirements of property, plant and equipment. Cash expenditures for property, plant and equipment totaled \$638.9 million in Fiscal 2017, \$563.8 million in Fiscal 2016 and \$490.6 million in Fiscal 2015. Cash payments for property, plant and equipment were higher in Fiscal 2017 compared to Fiscal 2016 reflecting, in large part, higher pipeline and peaking asset-related cash capital expenditures at our Midstream & Marketing segment, and a pipeline expansion project and higher IT capital expenditures at UGI Utilities. Cash payments for property, plant and equipment were higher in Fiscal 2016 compared to Fiscal 2015 reflecting, in large part, higher Gas Utility replacement and infrastructure improvement capital expenditures, higher Energy Services midstream pipeline project capital expenditures and, to a lesser extent, incremental UGI International capital expenditures principally reflecting the full-year impact of Finagaz. Net cash used for acquisitions of businesses in Fiscal 2017 reflects net cash paid for acquisitions at AmeriGas Propane (\$36.8 million) and UGI International (\$64.8 million). Net cash paid for acquisitions of businesses in Fiscal 2016 includes business acquisitions at AmeriGas Propane (\$37.6 million) and UGI International (\$23.6 million). Net cash paid for business acquisitions in Fiscal 2015 reflects in large part the Totalgaz Acquisition (see Note 4 to Consolidated Financial Statements). Cash from changes in restricted cash, primarily cash in futures brokerage accounts, provided (used) cash of \$6.1 million in Fiscal 2017, \$53.7 million in Fiscal 2016 and \$(52.8) million in Fiscal 2015. The amount of restricted cash required in such accounts is generally the result of changes in underlying commodity prices.

## Financing Activities:

Changes in cash flow from financing activities are primarily due to issuances and repayments of long-term debt; short-term borrowings; dividends and distributions on UGI Common Stock and AmeriGas Partners Common Units; and issuances or repurchases of equity instruments.

During Fiscal 2017, UGI Utilities issued \$100 million of Senior Notes and used the net proceeds principally to fund infrastructure replacement and betterment capital expenditures, IT initiatives and for general corporate purposes.

During Fiscal 2017, AmeriGas Partners and AmeriGas Finance Corp. issued \$700.0 million of Senior Notes the net proceeds of which were used in large part for the early repayment of a portion of AmeriGas Partners' 7.00% Senior

Notes having an aggregate principal balance of \$500.0 million plus accrued and unpaid interest and early redemption premiums. Also during Fiscal 2017, AmeriGas Partners and AmeriGas Finance Corp. issued \$525 million of Senior Notes, the net proceeds of which were used primarily for the early repayments in February and May of the remaining outstanding AmeriGas Partners' 7.00% Senior Notes having an aggregate principal balance of \$480.8 million. In Fiscal 2016, AmeriGas Partners issued \$1.35 billion face value of AmeriGas Partners Senior Notes and used substantially all of the net proceeds from the issuance to repay \$1.27 billion principal amount of existing AmeriGas Partners Senior Notes subject to tender offers and notices of redemptions. In addition, during Fiscal 2016 UGI Utilities issued \$300 million of Senior Notes and



Table of Contents

used the net proceeds principally to repay maturing long-term debt and short-term borrowings. The increases in dividends on UGI Common Stock and distributions on AmeriGas Partners' publicly held Common Units during the three-year period principally reflect annual increases in quarterly dividend and distribution rates.

Financing cash flows in Fiscal 2015 include net proceeds from the issuance of long-term debt under the UGI France 2015 Senior Facilities Agreement totaling \$652.6 million, the proceeds of which were used principally to fund a portion of the acquisition of Finagaz and to prepay term loans outstanding under Antargaz' 2011 Senior Facilities Agreement. For further information on debt transactions, see Note 5 to Consolidated Financial Statements.

Capital Expenditures

In the following table, we present capital expenditures (which exclude acquisitions) for Fiscal 2017, Fiscal 2016 and Fiscal 2015. We also provide amounts we expect to spend in Fiscal 2018. We expect to finance a substantial portion of our Fiscal 2018 capital expenditures from cash generated by operations, borrowings under credit facilities and cash on hand.

Year Ended September 30,	2018	2017	2016	2015
(Millions of dollars)	(estimate)			
AmeriGas Propane	\$ 112.0	\$98.1	\$101.7	\$102.0
UGI International	107.0	90.3	99.9	87.5
UGI Utilities	317.0	317.7	262.5	197.7
Midstream & Marketing	47.0	117.5	140.4	88.0
Total	\$ 583.0	\$623.6	\$604.5	\$475.2

The higher levels of UGI Utilities capital expenditures in Fiscal 2017 and Fiscal 2016, as well as those estimated for Fiscal 2018, reflect greater main replacement and system improvement capital expenditures, increases in new business capital expenditures and expected investments in new IT projects.

Contractual Cash Obligations and Commitments

The Company has contractual cash obligations that extend beyond Fiscal 2017. Such obligations include scheduled repayments of long-term debt, interest on long-term fixed-rate debt, operating lease payments, unconditional purchase obligations for pipeline capacity, pipeline transportation and natural gas storage services and commitments to purchase natural gas, LPG and electricity, capital expenditures and derivative instruments. The following table presents contractual cash obligations with non-affiliates under agreements existing as of September 30, 2017:

(Millions of dollars)	Payments Due by Period				
	Total	Fiscal 2018	Fiscal 2019 - 2020	Fiscal 2021 - 2022	Thereafter
Long-term debt (a)	\$4,211.9	\$179.6	\$655.9	\$80.7	\$3,295.7
Interest on long-term-fixed rate debt (b)	2,017.9	197.2	380.3	359.9	1,080.5
Operating leases	454.9	91.0	147.2	102.4	114.3
AmeriGas Propane supply contracts	7.4	7.4	—	—	—
UGI International supply contracts	69.1	69.1	—	—	—
Midstream & Marketing supply contracts	225.4	166.8	50.9	7.7	—
UGI Utilities supply, storage and transportation contracts	332.5	93.8	100.7	69.4	68.6
Derivative instruments (c)	37.7	18.8	18.6	0.3	—
Total	\$7,356.8	\$823.7	\$1,353.6	\$620.4	\$4,559.1

(a) Based upon stated maturity dates for debt outstanding at September 30, 2017.

(b) Based upon stated interest rates adjusted for the effects of interest rate swaps.

Represents the sum of amounts due if derivative instrument liabilities were settled at September 30, 2017, amounts (c) reflected in the Consolidated Balance Sheet (but excluding amounts associated with interest rate and cross-currency swaps).

“Other noncurrent liabilities” included in our Consolidated Balance Sheet at September 30, 2017, principally comprise refundable tank and cylinder deposits (as further described in Note 2 to Consolidated Financial Statements under the

caption "Refundable

52

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Table of Contents

Tank and Cylinder Deposits”); litigation, property and casualty liabilities and obligations under environmental remediation agreements (see Note 15 to Consolidated Financial Statements); pension and other postretirement benefit liabilities recorded in accordance with accounting guidance relating to employee retirement plans (see Note 7 to Consolidated Financial Statements); and liabilities associated with executive compensation plans (see Note 13 to Consolidated Financial Statements). These liabilities are not included in the table of Contractual Cash Obligations and Commitments because they are estimates of future payments and not contractually fixed as to timing or amount. Required minimum contributions to UGI Utilities’ pension plan (as further described below under “U.S. Pension Plan”) in Fiscal 2018 are not expected to be material. Required minimum contributions to the U.S. Pension Plan in years beyond Fiscal 2018 will depend, in large part, on the impacts of future returns on pension plan assets and interest rates on pension plan liabilities. Certain of our operating lease arrangements, primarily vehicle leases with remaining lease terms of one to ten years, have residual value guarantees. Although such fair values at the end of the leases have historically exceeded the guaranteed amount, at September 30, 2017, the maximum potential amount of future payments under lease guarantees assuming the leased equipment was deemed worthless was approximately \$47 million.

**UGI Standby Commitment to Purchase AmeriGas Partners Class B Common Units**

On November 7, 2017, UGI entered into 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 million 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. In consideration for any capital contributions made pursuant to the Commitment Agreement, the Partnership will issue to UGI or a wholly owned subsidiary new Class B Common Units representing limited partner interests in the Partnership (“Class B Units”) at a price equal to the 20-day volume-weighted average price of the Partnership’s Common Units prior to the date of the Partnership’s 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. Generally, 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, subject to certain conditions, the Partnership may elect to convert all or any portion of the Class B Units into Common Units. For additional information, see Note 15 to Consolidated Financial Statements.

**U.S. Pension Plan**

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”). The fair values of the U.S. Pension Plan’s assets totaled \$498.0 million and \$463.4 million at September 30, 2017 and 2016, respectively. At September 30, 2017 and 2016, the underfunded positions of the U.S. Pension Plan, defined as the excess of the projected benefit obligation (“PBO”) over the U.S. Pension Plan’s assets, were \$141.2 million and \$182.0 million, respectively.

We believe we are in compliance with regulations governing defined benefit pension plans, including the Employee Retirement Income Security Act of 1974 (“ERISA”) rules and regulations. Required minimum contributions to the U.S. Pension Plan in Fiscal 2018 are not expected to be material. Pre-tax pension cost associated with the U.S. Pension Plan in Fiscal 2017 was \$17.1million. Pre-tax pension cost associated with the U.S. Pension Plan in Fiscal 2018 is expected to be approximately \$13.0 million.

GAAP guidance associated with pension and other postretirement plans generally requires recognition of an asset or liability in the statement of financial position reflecting the funded status of pension and other postretirement benefit plans with current year changes recognized in shareholders’ equity unless such amounts are subject to regulatory recovery. At September 30, 2017, we have recorded after-tax charges to UGI Corporation’s stockholders’ equity of \$19.2 million and recorded regulatory assets totaling \$141.3 million in order to reflect the funded status of our pension and other postretirement benefit plans. For a more detailed discussion of the U.S. Pension Plan and our other

postretirement benefit plans, see Note 7 to Consolidated Financial Statements.

**Related Party Transactions**

During Fiscal 2017, Fiscal 2016 and Fiscal 2015, we did not enter into any related-party transactions that had a material effect on our financial condition, results of operations or cash flows.

## Table of Contents

### Off-Balance-Sheet Arrangements

UGI primarily enters into guarantee arrangements on behalf of its consolidated subsidiaries. These arrangements are not subject to the recognition and measurement guidance relating to guarantees under GAAP.

We do not have any off-balance-sheet arrangements that are expected to have a material effect on our financial condition, change in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

### Utility Regulatory Matters

**Base Rate Filings.** On January 19, 2017, PNG filed a rate request with the PUC to increase PNG's annual base operating revenues for residential, commercial and industrial customers by \$21.7 million annually. The increased revenues would fund ongoing system improvements and operations necessary to maintain safe and reliable natural gas service. On June 30, 2017, all active parties supported the filing of a Joint Petition for Approval of Settlement of all issues with the PUC providing for an \$11.3 million PNG annual base distribution rate increase. On August 31, 2017, the PUC approved the Joint Petition and the increase became effective 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 million annual base distribution rate increase for UGI Gas. The increase became effective on October 19, 2016.

**Distribution System Improvement Charge.** On April 14, 2012, legislation became effective enabling gas and electric utilities in Pennsylvania, under certain circumstances, to recover the cost of eligible capital investment in distribution system infrastructure improvement projects between base rate cases. The charge enabled by the legislation is known as a distribution system improvement charge ("DSIC"). The primary benefit to a company from a DSIC charge is the elimination of regulatory lag, or delayed rate recognition, that occurs under traditional ratemaking relating to qualifying capital expenditures. To be eligible for a DSIC, a utility must have filed a general rate filing within five years of its petition seeking permission to include a DSIC in its tariff, and not exceed certain earnings tests. Absent PUC permission, the DSIC is capped at 5% of distribution charges billed to customers.

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 March 2016, PNG and CPG filed petitions seeking approval to increase the maximum allowable DSIC from 5% to 10% of billed distribution revenues. On May 10, 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 in 2018.

On November 9, 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 will be permitted to recover revenue under the mechanism for the amount of DSIC-eligible plant placed into service in excess of the threshold amount of DSIC-eligible plant agreed upon in the settlement of its recent base rate case.

### Manufactured Gas Plants

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 million, \$1.8 million and \$1.1 million, for UGI Utilities, CPG and PNG, respectively. The COAs for UGI Utilities, CPG and PNG are scheduled to terminate at the end of 2031, 2018 and 2019, respectively. At September 30, 2017 and 2016, our estimated accrued liabilities for environmental investigation and remediation costs related

## Table of Contents

to the COAs for UGI Utilities, CPG and PNG totaled \$54.3 million and \$55.1 million, 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 8 to the Consolidated Financial Statements).

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 September 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.

## Market Risk Disclosures

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 and option 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. In addition, certain of our UGI International businesses hedge a portion of their anticipated U.S. dollar-denominated LPG product purchases through the use of forward foreign currency exchange contracts as further described below.

Gas Utility's tariffs contain clauses that permit recovery of all of the 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 New York Mercantile Exchange ("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.

Electric Utility's DS tariffs contain clauses which permit recovery of all prudently incurred power costs, including the cost of financial instruments used to hedge electricity costs, through the application of DS rates. Because of this ratemaking mechanism, there is limited power cost risk, including the cost of financial transmission rights ("FTRs") and forward electricity purchase contracts, associated with our Electric Utility operations.

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 Consolidated Statements of Income.

In order to manage market price risk relating to substantially all of Midstream & Marketing's fixed-price sales contracts for natural gas and electricity, Midstream & Marketing enters into NYMEX, Intercontinental Exchange ("ICE") and over-the-counter natural



Table of Contents

gas and electricity futures 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. From time to time, Midstream & Marketing purchases FTRs to economically hedge certain transmission costs that may be associated with its fixed-price electricity sales contracts. Midstream & Marketing from time to time also enters into New York Independent System Operator ("NYISO") capacity swap contracts to economically hedge the locational basis differences for customers it serves on the NYISO electricity grid. Midstream & Marketing also uses NYMEX futures contracts to economically hedge the gross margin associated with the purchase and anticipated later near-term sale of natural gas or propane.

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.

Our variable-rate debt includes short-term borrowings and UGI France SAS's and Flaga's variable-rate term loans. These debt agreements have interest rates that are generally indexed to short-term market interest rates. UGI France SAS and Flaga, through the use of pay-fixed receive-variable interest rate swaps, have fixed the underlying euribor interest rates on their euro-denominated term loans through all, or a substantial portion of, the periods such debt is outstanding. In addition, Flaga's U.S. dollar-denominated loan has been swapped from a floating-rate U.S. dollar-denominated interest rate to a fixed-rate euro-denominated interest rate through a cross-currency swap, removing interest rate risk (and foreign currency exchange risk as further described below under Foreign Currency Exchange Rate Risk) associated with the underlying interest payments. At September 30, 2017, combined borrowings outstanding under variable-rate debt agreements, excluding UGI France SAS's and Flaga's effectively fixed-rate term loan and Flaga's U.S. dollar-denominated loan, totaled \$366.9 million. Based upon average borrowings outstanding under variable-rate borrowings (excluding UGI France SAS's and Flaga's effectively fixed-rate term loan debt and Flaga's U.S. dollar-denominated loan), an increase in short-term interest rates of 100 basis points (1%) would have increased our Fiscal 2017 interest expense by approximately \$3 million. The remainder of our debt outstanding is subject to fixed rates of interest. A 100 basis point increase in market interest rates would result in decreases in the fair value of this fixed-rate debt of approximately \$259 million at September 30, 2017. A 100 basis point decrease in market interest rates would result in increases in the fair value of this fixed-rate debt of approximately \$291 million at September 30, 2017.

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 interest rate protection agreements ("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 (“net investment hedges”). Gains or losses on net investment hedges remain in accumulated other comprehensive income until such foreign operations are sold or liquidated. At September 30, 2017, there were no unsettled net investment hedges outstanding. 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 September 30, 2017, by approximately \$120 million, which amount would be reflected in other comprehensive income.

Table of Contents

In addition, in order to reduce exposure to foreign exchange rate volatility related to our foreign LPG operations, through September 30, 2016, we 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.

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 between the euro and British pound sterling, we have entered into forward foreign currency exchange contracts.

As previously mentioned, Flaga has a cross-currency swap to hedge its exposure to the variability in expected future cash flows associated with the foreign currency and interest rate risk of U.S. dollar-denominated debt. This cross-currency hedge includes initial and final exchanges of principal from a fixed euro denomination to a fixed U.S. dollar-denominated amount, to be exchanged at a specified rate, which was determined by the market spot rate on the date of issuance.

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. Additionally, our commodity exchange-traded futures contracts generally require cash deposits in margin accounts. At September 30, 2017, restricted cash in brokerage accounts totaled \$10.3 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 September 30, 2017. 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 September 30, 2017, if the credit-risk-related contingent features were triggered, the amount of collateral required to be posted would not be material.

The following table summarizes the fair values of unsettled market risk sensitive derivative instrument assets (liabilities) held at September 30, 2017. 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 the three-month and one-month euribor rates; and (3) a 10% change in the value of the euro and the British pound sterling versus the U.S. dollar. Gas Utility's and Electric Utility's 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.

(Millions of dollars)	Asset (Liability)	
	Fair Value	Change in Fair Value
September 30, 2017:		
Commodity price risk	\$64.8	\$(61.0)
Interest rate risk	\$(2.3)	\$(1.5)
Foreign currency exchange rate risk	\$(28.9)	\$(51.4)

Critical Accounting Policies and Estimates

Accounting policies and estimates discussed in this section are those that we consider to be the most critical to an understanding of our financial statements because they involve significant judgments and uncertainties. Changes in these policies and estimates could have a material effect on the financial statements. The application of these accounting policies and estimates necessarily requires management's most subjective or complex judgments regarding estimates and projected outcomes of future events which could have a material impact on the financial statements. Management has reviewed these critical accounting policies, and the estimates and assumptions associated with them, with the Company's Audit Committee. Also, see Note 2 to Consolidated Financial Statements which discusses the significant accounting policies that we have selected from acceptable alternatives.

Table of Contents

Litigation Accruals and Environmental Remediation Liabilities. We are involved in litigation that arises in the normal course of business. In addition, UGI Utilities and its former subsidiaries owned and operated a number of MGPs in Pennsylvania and elsewhere, and PNG and CPG owned and operated a number of MGP sites located in Pennsylvania, at which hazardous substances may be present. In accordance with GAAP, we record a reserve when it is probable that a liability exists and the amount or range of amounts related to such liability can be reasonably estimated. When there is a range of possible loss with equal likelihood, liabilities recorded are based upon the low end of such range. The likelihood of a loss with respect to a particular contingency is often difficult to predict and determining a reasonable estimate of the loss or a range of possible loss may not be practicable based upon the information available and the potential effects of future events and decisions by third parties that will determine the ultimate resolution of the contingency. Reasonable estimates involve management judgments based on a broad range of information and prior experience and include an evaluation of the nature of the claim, the procedural status of the matter, the probability or likelihood of success of prosecuting or defending the claim, the information available with respect to the claim, the opinions and views of outside counsel and other advisors, and past experience in similar matters. These judgments are reviewed quarterly as more information is received, and the amounts reserved are updated as necessary. Our estimated reserves may differ materially from the ultimate liability and such reserves may change materially as more information becomes available.

Accounting For Derivative Instruments at Fair Value. The Company enters into derivative instruments to economically hedge the risks associated with changes in commodity prices, interest rates and foreign currency rates. Accounting requirements for derivatives and related hedging activities are complex and may be subject to further clarification by standard-setting bodies. These derivatives are recognized as assets and liabilities at fair value on the Consolidated Balance Sheets. Derivative assets and liabilities are presented net by counterparty on our Consolidated Balance Sheets if the right of offset exists. The accounting for changes in fair value depends upon the purpose of the derivative instrument and whether it is designated and qualifies for hedge accounting. Changes in the fair values of certain derivative instruments that qualify and are designated as cash flow hedges are recorded in accumulated other comprehensive income ("AOCI") or noncontrolling interests, both of which are components of equity, to the extent effective at offsetting changes in the hedged item, until earnings are affected by the hedged item. Changes in the fair values of derivative instruments that we do not designate as, or that do not qualify for, hedge accounting under GAAP, which currently comprises all of our commodity and certain of our foreign currency derivative instruments, are recognized in earnings on the Consolidated Statements of Income. The fair values of our derivative instruments are determined based upon actively-quoted market prices for identical assets and liabilities, indicative price quotations available through brokers, industry price publications or recent market transactions and related market indicators. We maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Gains and losses associated with derivatives utilized by UGI Utilities to manage the price risk inherent in its natural gas and electricity purchasing activities are recoverable through Gas Utility PGC or Electric Utility DS mechanisms, subject to PUC approval. Accordingly, the offset to the changes in fair values of these derivatives for which the normal purchases and normal sales exception under GAAP does not apply are recorded as either a regulatory asset or liability on the Consolidated Balance Sheets. At September 30, 2017, the net fair value of our derivative assets totaled \$80.6 million and the net fair value of our derivative liabilities totaled \$46.8 million.

Regulatory Assets and Liabilities. Gas Utility and Electric Utility are subject to regulation by the PUC. In accordance with accounting guidance associated with rate-regulated entities, we record the effects of rate regulation in our financial statements as regulatory assets or regulatory liabilities. We continually assess whether the regulatory assets are probable of future recovery by evaluating the regulatory environment, recent rate orders and public statements issued by the PUC, and the status of any pending deregulation legislation. If future recovery of regulatory assets ceases to be probable, the elimination of those regulatory assets would adversely impact our results of operations and cash flows. As of September 30, 2017, our regulatory assets and regulatory liabilities totaled \$368.9 million and \$49.2 million, respectively. For additional information on regulatory assets and liabilities, see Notes 2 and 8 to Consolidated Financial Statements.

**Depreciation and Amortization of Long-Lived Assets.** We compute depreciation on utility property, plant and equipment on a straight-line basis based upon the projected service lives of its various classes of depreciable property and on our non-utility property, plant and equipment on a straight-line basis over estimated useful lives generally ranging from 3 to 40 years. We also use amortization methods and determine asset values of intangible assets subject to amortization using reasonable assumptions and projections. Changes in the estimated useful lives of property, plant and equipment and changes in intangible asset amortization methods or values could have a material effect on our results of operations. As of September 30, 2017, our net property, plant and equipment totaled \$5,537.0 million and we recorded depreciation expense of \$357.3 million during Fiscal 2017. As of September 30, 2017, our net intangible assets subject to amortization totaled \$477.6 million and we recorded amortization expense on intangible assets subject to amortization of \$50.8 million during Fiscal 2017.

**Purchase Price Allocations.** From time to time, the Company enters into material business combinations. In accordance with accounting guidance associated with business combinations, the purchase price is allocated to the various assets acquired and liabilities assumed at their estimated fair value. Fair values of assets acquired and liabilities assumed are based upon available information and we may involve an independent third party to perform appraisals. Estimating fair values can be complex and

Table of Contents

subject to significant business judgment and most commonly impacts property, plant and equipment and intangible assets, including those with indefinite lives. Generally, we have, if necessary, up to one year from the acquisition date to finalize the purchase price allocation.

**Goodwill Impairment Evaluation.** Our goodwill is the result of business acquisitions. We do not amortize goodwill, but test it at least annually for impairment at the reporting unit level. A reporting unit is the operating segment, or a business one level below the operating segment (a component), if discrete financial information is prepared and regularly reviewed by segment management. Components are aggregated as a single reporting unit if they have similar economic characteristics. A reporting unit with goodwill is required to perform an impairment test annually or whenever events or circumstances indicate that the value of goodwill may be impaired. During the fourth quarter of Fiscal 2017, we adopted new accounting guidance simplifying the test for goodwill impairment. The adoption of the new guidance did not impact the consolidated financial statements. See Note 3 to Consolidated Financial Statements for more information.

For certain of our reporting units with goodwill, we assess qualitative factors to determine whether it is more likely than not that the fair value of such reporting unit is less than its carrying amount. For our other reporting units with goodwill, we bypass the qualitative assessment and perform the quantitative assessment by comparing the fair values of the reporting units with their carrying amounts, including goodwill. We determine fair values generally based on a weighting of income and market approaches. For purposes of the income approach, fair values are determined based upon the present value of the reporting unit's estimated future cash flows, including an estimate of the reporting unit's terminal value based upon these cash flows, discounted at appropriate risk-adjusted rates. We use our internal forecasts to estimate future cash flows which may include estimates of long-term future growth rates based upon our most recent reviews of the long-term outlook for each reporting unit. Cash flow estimates used to establish fair values under our income approach involve management judgments based on a broad range of information and historical results. In addition, external economic and competitive conditions can influence future performance. For purposes of the market approach, we use valuation multiples for companies comparable to our reporting units. The market approach requires judgment to determine the appropriate valuation multiples. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to such excess but not to exceed the total amount of the goodwill of the reporting unit. As of September 30, 2017, our goodwill totaled \$3,107.2 million. We did not record any impairments of goodwill in Fiscal 2017, Fiscal 2016 or Fiscal 2015.

**Impairment of Long-Lived Assets.** Impairment testing for individual long-lived assets, or groups of long-lived assets, is required when circumstances indicate that such assets may be impaired. If it is determined that a triggering event has occurred, we prepare a quantitative evaluation based upon undiscounted cash flow projections expected to be realized over the remaining useful life of the asset or the primary asset of an asset group. A long-lived asset or group of assets is considered impaired when the carrying amount of such assets exceeds the associated undiscounted estimated future cash flows. When determining whether an asset or group of assets has been impaired, management groups assets at the lowest level that has identifiable cash flows. Performing an impairment test on long-lived assets involves judgment in areas such as identifying when a triggering event requiring evaluation occurs; identifying and grouping assets; and, if the asset or group of assets is determined to be impaired based upon an excess of carrying amount over estimated undiscounted future cash flows, determining the fair value of the asset or asset group.

Although cash flow estimates are based upon relevant information at the time the estimates are made, estimates of future cash flows are by nature highly uncertain and contemplate factors that change over time such as the expected use of the asset including future production and sales volumes, expected fluctuations in prices of commodities and expected proceeds from disposition. No material provisions for impairments of long-lived assets were recorded during Fiscal 2017, Fiscal 2016 or Fiscal 2015.

**Pension Plan Assumptions.** Pension plan assumptions are significant inputs to the actuarial models that measure pension benefit obligations and pension expense. The cost of providing benefits under the U.S. Pension Plan is dependent on historical information such as employee age, length of service, level of compensation and the actual rate of return on plan assets. In addition, certain assumptions relating to the future are used to determine pension expense including mortality assumptions, the discount rate applied to benefit obligations, the expected rate of return on plan assets and the rate of compensation increase, among others. Assets of the U.S. Pension Plan are held in trust and

consist principally of equity and fixed income mutual funds and investments in UGI Corporation Common Stock. Changes in plan assumptions as well as fluctuations in actual equity or fixed income market returns could have a material impact on future pension costs. We believe the two most critical assumptions are (1) the expected rate of return on plan assets, and (2) the discount rate. A decrease in the expected rate of return on U.S. Pension Plan assets of 50 basis points to a rate of 6.90% would result in an increase in pre-tax pension cost of approximately \$2.3 million in Fiscal 2018. A decrease in the discount rate of 50 basis points to a rate of 3.50% would result in an increase in pre-tax pension cost of approximately \$4.4 million in Fiscal 2018. For additional information on our U.S. Pension Plan, see Note 7 to Consolidated Financial Statements.

**Income Taxes.** We use the asset and liability method of accounting for income taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year and for deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. Positions taken by an entity



Table of Contents

in its tax returns must satisfy a more-likely-than-not recognition threshold assuming the positions will be examined by tax authorities with full knowledge of relevant information. We use assumptions, judgments and estimates to determine our current provision for income taxes. We also use assumptions, judgments and estimates to determine our deferred tax assets and liabilities and any valuation allowance to be recorded against a deferred tax asset. Our assumptions, judgments and estimates relative to the current provision for income tax give consideration to current tax laws, our interpretation of current tax laws and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. Changes in tax law or our interpretation thereof and the resolution of current and future tax audits could significantly impact the amounts provided for income taxes in our consolidated financial statements. Our assumptions, judgments and estimates relative to the amount of deferred income taxes take into account estimates of the amount of future taxable income. Actual taxable income or future estimates of taxable income could render our current assumptions, judgments and estimates inaccurate. Changes in the assumptions, judgments and estimates mentioned above could cause our actual income tax obligations to differ significantly from our estimates. As of September 30, 2017, our net deferred tax liabilities totaled \$1,330.7 million.

Recently Issued Accounting Pronouncements

See Note 3 to the Consolidated Financial Statements for a discussion of the effects of recently issued accounting guidance.

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

“Quantitative and Qualitative Disclosures About Market Risk” are contained in Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations under the caption “Market Risk Disclosures” and are incorporated by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management’s Annual Report on Internal Control Over Financial Reporting and the financial statements and financial statement schedules referred to in the Index contained on page F-2 of this Report are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 (the “Exchange Act”), 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 September 30, 2017, were effective at the reasonable assurance level.

(a) For “Management’s Annual Report on Internal Control Over Financial Reporting” see Item 8 of this Report (which information is incorporated herein by reference).

Effective on September 4, 2017, our wholly-owned subsidiary, UGI Utilities, Inc., implemented a new customer service and meter management system to replace its legacy system. We consider the system replacement to be material to UGI Corporation. The implementation resulted in greater automation of internal controls in the UGI Utilities Meter-to-Bill cycle. As a result of the implementation, controls that were previously determined to be effective were replaced with new or modified controls that were also determined to be effective. Other than this system implementation, there were no changes in the Company’s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

Table of Contents

PART III:

ITEMS 10 THROUGH 14.

In accordance with General Instruction G(3), and except as set forth below, the information required by Items 10, 11, 12, 13 and 14 is incorporated in this Report by reference to the following portions of UGI's Proxy Statement, which will be filed with the SEC by December 31, 2017.

Information	Captions of Proxy Statement Incorporated by Reference Election of Directors - Nominees; Corporate Governance; Director Independence; Board Leadership Structure and Role in Risk Management; Board Meetings and Attendance; Board and Committee Structure; Communications with the Board; Securities Ownership of Certain Beneficial Owners - Security Ownership of Directors and Executive Officers; Securities Ownership of Certain Beneficial Owners - Section 16(a) Beneficial Ownership Reporting Compliance; Report of the Audit Committee of the Board of Directors
Item 10. Directors, Executive Officers and Corporate Governance	
The Code of Ethics for the Chief Executive Officer and Senior Financial Officers of UGI Corporation is available without charge on the Company's website, www.ugicorp.com, or by writing to Treasurer, UGI Corporation, P. O. Box 858, Valley Forge, PA 19482.	
Item 11. Executive Compensation	Compensation of Directors; Report of the Compensation and Management Development Committee of the Board of Directors; Compensation Discussion and Analysis; Compensation of Executive Officers; Compensation Committee Interlocks and Insider Participation
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	Security Ownership of Directors and Executive Officers; Securities Ownership of Certain Beneficial Owners; Section 16(a) Beneficial Ownership Reporting Compliance.
Item 13. Certain Relationships and Related Transactions, and Director Independence	Election of Directors - Director Independence and Board and Committee Structure; Policy for Approval of Related Person Transactions
Item 14. Principal Accounting Fees and Services	Our Independent Registered Public Accounting Firm

Table of Contents

## Equity Compensation Table

The following table sets forth information as of the end of Fiscal 2017 with respect to compensation plans under which our equity securities are authorized for issuance.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	8,781,748	(1) \$ 30.20	10,855,935 (2)
	978,834	(3) \$ 0	
Equity compensation plans not approved by security holders	0		
Total	9,760,582	\$ 30.20	(4)

Represents 8,781,748 stock options under the UGI Corporation 2004 Omnibus Equity Compensation Plan (1) Amended and Restated as of December 5, 2006 and the UGI Corporation 2013 Omnibus Incentive Compensation Plan.

Represents 4,116 securities remaining for future issuance of stock options from the 2004 Omnibus Equity Compensation Plan Amended and Restated as of December 5, 2006 and 10,851,819 of securities remaining for (2) issuance from the UGI Corporation 2013 Omnibus Incentive Compensation Plan. The UGI Corporation 2013 Omnibus Incentive Compensation Plan was approved by the shareholders on January 24, 2013.

Represents 978,834 restricted stock units under the UGI Corporation 2004 Omnibus Equity Compensation Plan (3) Amended and Restated as of December 5, 2006 and the UGI Corporation 2013 Omnibus Incentive Compensation Plan.

(4) Weighted-average exercise price of outstanding options; excludes restricted stock units.

The information concerning the Company's executive officers required by Item 10 is set forth below.

## EXECUTIVE OFFICERS

Name	Age	Position
John L. Walsh	62	President and Chief Executive Officer
Kirk R. Oliver	59	Chief Financial Officer
Robert F. Beard	52	President and Chief Executive Officer, UGI Utilities, Inc.
Monica M. Gaudiosi	54	Vice President, General Counsel and Secretary
Joseph L. Hartz	54	President, UGI Energy Services, LLC
Marie-Dominique Ortiz-Landazabal	49	Vice President - Accounting and Financial Control and Chief Accounting Officer
Roger Perreault	53	President, UGI International
Jerry E. Sheridan	52	President and Chief Executive Officer, AmeriGas Propane, Inc.

All officers are elected for a one-year term at the organizational meetings of the respective Boards of Directors held each year.

There are no family relationships between any of the officers or between any of the officers and any of the directors.

Table of Contents

John L. Walsh

Mr. Walsh is a Director and President (since 2005) and Chief Executive Officer (since 2013) of UGI Corporation. In addition, Mr. Walsh serves as a Director and Chairman of the Board of AmeriGas Propane, Inc. (since 2016), where he had served as a director and vice chairman since 2005. He also serves as a Director and Vice Chairman of UGI Utilities, Inc. (since 2005). Both AmeriGas Propane, Inc. and UGI Utilities, Inc. are subsidiaries of UGI Corporation. Mr. Walsh served as Chief Operating Officer of UGI Corporation (2005 to 2013) and as President and Chief Executive Officer of UGI Utilities, Inc. (2009 to 2011). Previously, Mr. Walsh was the Chief Executive of the Industrial and Special Products division of the BOC Group plc, an industrial gases company, a position he assumed in 2001. He was an Executive Director of BOC (2001 to 2005) having joined BOC in 1986 as Vice President - Special Gases and having held various senior management positions in BOC, including President of Process Gas Solutions, North America (2000 to 2001) and President of BOC Process Plants (1996 to 2000). Mr. Walsh also serves as Director at Main Line Health, Inc., the United Way of Southeastern Pennsylvania and Southern New Jersey, the World Affairs Council of Philadelphia, and the Philadelphia Zoo, and as Trustee at the Saint Columbkille Partnership School.

Kirk R. Oliver

Mr. Oliver is Chief Financial Officer of UGI Corporation (since 2012). From December 2011 until September 2012, Mr. Oliver served as Senior Managing Director & Chief Operating Officer of InfraREIT Capital Partners, LLC, a partnership that invests in infrastructure assets, primarily electric transmission and gas pipeline assets. Prior to joining InfraREIT Capital, Mr. Oliver served as Senior Vice President and Chief Financial Officer of Allegheny Energy, Inc., an electric utility company (2008 to 2011) and as a Senior Executive at Hunt Power, LLC, a company that develops and invests in electric and gas utility projects (2007 to 2008). Mr. Oliver served in various positions at TXU Corp. (now Energy Future Holdings Corp.), an electricity distribution, generation and transmission company in Texas (1998 to 2006), including as Executive Vice President and Chief Financial Officer (2004 to 2006), Senior Vice President, Finance (2000 to 2003) and Vice President, Treasurer and Assistant Secretary (1998 to 1999). Prior to joining TXU Corp., Mr. Oliver spent eleven years as an investment banker in the Global Power and Energy Group at Lehman Brothers and six years at Motorola Inc. As previously announced, Mr. Oliver will leave his position as Chief Financial Officer of UGI Corporation in early 2018.

Robert F. Beard

Mr. Beard is President and Chief Executive Officer and a Director of UGI Utilities, Inc. (since 2011). He previously served as Vice President - Marketing, Rates and Gas Supply (2010 to 2011) and Vice President - Southern Region (2008 to 2010) of UGI Utilities, Inc. From 2006 until 2008, Mr. Beard served as Vice President - Operations and Engineering of PPL Gas Utilities Corporation and, from 2002 until 2006, he served as Director - Operations and Engineering of PPL Gas Utilities Corporation.

Monica M. Gaudiosi

Ms. Gaudiosi is the Vice President, General Counsel and Secretary of UGI Corporation and UGI Utilities, Inc. (since 2012). She is also Vice President (since 2012), General Counsel (since July 2015) and Secretary (since 2012) of AmeriGas Propane, Inc. Prior to joining UGI Corporation, Ms. Gaudiosi served as Senior Vice President and General Counsel (2007 to 2012) and Senior Vice President and Associate General Counsel (2005 to 2007) of Southern Union Company. Prior to joining Southern Union Company in 2005, Ms. Gaudiosi held various positions with General Electric Capital Corporation (1997 to 2005). Before joining General Electric Capital Corporation, Ms. Gaudiosi was an associate at the law firms of Hunton & Williams (1994 to 1997) and Sutherland, Asbill & Brennan (1988 to 1994).

Joseph L. Hartz

Mr. Hartz is President of UGI Energy Services, LLC (since March 2017). He previously served as Chief Operating officer (June 2014 to March 2017) and as Vice President - Supply and Operations (July 2010 to June 2014) of UGI Energy Services, LLC. He joined UGI Energy Services, LLC in 1985 as an accountant and has held various positions of increasing responsibility, including Vice President - Assets and Supply and Chief Financial Officer.

Marie-Dominique Ortiz-Landazabal

Marie-Dominique Ortiz-Landazabal is Vice President - Accounting and Financial Control and Chief Accounting Officer of UGI Corporation (since December 2015). She previously served as General Auditor since January 2012 when she joined UGI Corporation. Prior to joining the Company, Ms. Ortiz-Landazabal was Manager, Accounting Policies and Specialty Accounting at Air Products and Chemicals, Inc. (September 2010 until December 2011). Prior to her position at Air Products, she held positions of increasing responsibility at PricewaterhouseCoopers LLP in Florida, Virginia, Paris (France), and Philadelphia, Pennsylvania

Table of Contents

(1994-2010).

Roger Perreault

Mr. Perreault is President - UGI International (since December 2015). Prior to joining UGI Corporation, Mr. Perreault held various positions at Air Liquide, an industrial gases company he joined in 1994. He was Group Vice President of the Large Industries World Business line based in Frankfurt, Germany (2014-2015). Previously, he held several positions in management ranging from business development to general management in Canada. Mr. Perreault then became President of Air Liquide Chile (2003-2005), President of Air Liquide Brazil (2005-2008) and then President of Large Industries North America based in Houston, Texas (2008-2014). Prior to joining Air Liquide, Mr. Perreault was a chemical engineer and operations manager with I.C.I. in Quebec, Canada.

Jerry E. Sheridan

Mr. Sheridan is President, Chief Executive Officer and a Director of AmeriGas Propane, Inc. (since March 2012). Previously, he served as Vice President - Operations and Chief Operating Officer (2011 to 2012) and as Vice President - Finance and Chief Financial Officer (2005 to 2011) of AmeriGas Propane, Inc. Mr. Sheridan served as President and Chief Executive Officer (2003 to 2005) of Potters Industries, Inc., a global manufacturer of engineered glass materials and a wholly-owned subsidiary of PQ Corporation, a global producer of inorganic specialty chemicals. In addition, Mr. Sheridan served as Executive Vice President (2003 to 2005) and as Vice President and Chief Financial Officer (1999 to 2003) of PQ Corporation. Mr. Sheridan also serves on the Management Board of CP Kelco (since 2013), a privately held company that provides innovative products and solutions through the use of nature-based chemistry.

PART IV:

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report:

(1) Financial Statements:

Included under Item 8 are the following financial statements and supplementary data:

Management's Annual Report on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm (on Internal Control Over Financial Reporting)

Report of Independent Registered Public Accounting Firm (on Consolidated Financial Statements and Schedules)

Consolidated Balance Sheets as of September 30, 2017 and 2016

Consolidated Statements of Income for the years ended September 30, 2017, 2016 and 2015

Consolidated Statements of Comprehensive Income for the years ended September 30, 2017, 2016 and 2015

Consolidated Statements of Cash Flows for the years ended September 30, 2017, 2016 and 2015

Consolidated Statements of Changes in Equity for the years ended September 30, 2017, 2016 and 2015

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules:

I — Condensed Financial Information of Registrant (Parent Company)

II — Valuation and Qualifying Accounts for the years ended September 30, 2017, 2016 and 2015

We have omitted all other financial statement schedules because the required information is (1) not present; (2) not present in amounts sufficient to require submission of the schedule; or (3) included elsewhere in the financial statements or related notes.





Table of Contents

## (3)List of 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 registration number or 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
3.1	<u>(Second) Amended and Restated Articles of Incorporation of the Company as amended through June 6, 2005.</u>	UGI	Form 10-Q (6/30/05)	3.1
3.2	<u>Articles of Amendment to the Amended and Restated Articles of Incorporation of UGI Corporation.</u>	UGI	Form 8-K (7/29/14)	3.1
3.3	<u>Bylaws of UGI Corporation, amended and restated as of July 25, 2017.</u>	UGI	Form 8-K (7/31/17)	3.1
4.1	Instruments defining the rights of security holders, including indentures. (The Company agrees to furnish to the Commission upon request a copy of any instrument defining the rights of holders of long-term debt not required to be filed pursuant to Item 601(b)(4) of Regulation S-K).			
4.2	The description of the Company's Common Stock contained in the Company's registration statement filed under the Securities Exchange Act of 1934, as amended.	UGI	Form 8-B/A (4/17/96)	3.(4)
4.3	UGI Corporation's (Second) Amended and Restated Articles of Incorporation, as amended, and Bylaws referred to in 3.1, 3.2, and 3.3 above.			
4.4	<u>Fourth Amended and Restated Agreement of Limited Partnership of AmeriGas Partners, L.P. dated as of July 27, 2009.</u>	AmeriGas Partners, L.P.	Form 10-Q (6/30/09)	3.1
4.5	<u>Amendment No. 1 to Fourth Amended and Restated Agreement of Limited Partnership of AmeriGas Partners, L.P. dated as of March 13, 2012.</u>	AmeriGas Partners, L.P.	Form 8-K (3/14/12)	3.1
4.6	<u>Amendment No. 2 to Fourth Amended and Restated Agreement of Limited Partnership of AmeriGas Partners, L.P. dated as of July 27, 2015.</u>	AmeriGas Partners, L.P.	Form 8-K (7/27/15)	3.1

Table of Contents

## Incorporation by Reference

Exhibit No.	Exhibit	Registrant	Filing	Exhibit
4.7	Indenture, dated as of August 1, 1993, by and between UGI Utilities, Inc., as Issuer, and U.S. Bank National Association, as successor trustee, incorporated by reference to the Registration Statement on Form S-3 filed on April 8, 1994.	Utilities	Registration Statement No. 33-77514 (4/8/94)	4(c)
4.8	<u>Supplemental Indenture, dated as of September 15, 2006, by and between UGI Utilities, Inc., as Issuer, and U.S. Bank National Association, successor trustee to Wachovia Bank, National Association.</u>	Utilities	Form 8-K (9/12/06)	4.2
4.9	<u>Indenture, dated as of January 12, 2012, among AmeriGas Finance Corp., AmeriGas Finance LLC, AmeriGas Partners, L.P., as guarantor, and U.S. Bank National Association, as trustee.</u>	AmeriGas Partners, L.P.	Form 8-K (1/12/12)	4.1
4.10	<u>First Supplemental Indenture, dated as of January 12, 2012, among AmeriGas Finance Corp., AmeriGas Finance LLC, AmeriGas Partners, L.P., as guarantor, and U.S. Bank National Association, as trustee.</u>	AmeriGas Partners, L.P.	Form 8-K (1/12/12)	4.2
4.11	Form of Fixed Rate Medium-Term Note.	Utilities	Form 8-K (8/26/94)	4(i)
4.12	<u>Form of Fixed Rate Series B Medium-Term Note.</u>	Utilities	Form 8-K (8/1/96)	4(i)
4.13	<u>Form of Floating Rate Series B Medium-Term Note.</u>	Utilities	Form 8-K (8/1/96)	4(ii)
4.14	Officer's Certificate establishing Medium-Term Notes Series.	Utilities	Form 8-K (8/26/94)	4(iv)
4.15	<u>Form of Officer's Certificate establishing Series B Medium-Term Notes under the Indenture.</u>	Utilities	Form 8-K (8/1/96)	4(iv)
4.16	<u>Form of Officers' Certificate establishing Series C Medium-Term Notes under the Indenture.</u>	Utilities	Form 8-K (5/21/02)	4.2
4.17	<u>Forms of Floating Rate and Fixed Rate Series C Medium-Term Notes.</u>	Utilities	Form 8-K (5/21/02)	4.1
4.18	<u>Form of Note Purchase Agreement dated October 30, 2013 between the Company and the purchasers listed as signatories thereto.</u>	Utilities	Form 8-K (10/30/13)	4.1

Table of Contents

## Incorporation by Reference

Exhibit No.	Exhibit	Registrant	Filing	Exhibit
4.19	<u>Note Purchase Agreement dated April 22, 2016 between the Company and the purchasers listed as signatories thereto.</u>	Utilities	Form 8-K (4/28/16)	4.1
4.20	<u>Indenture, dated as of June 27, 2016, among AmeriGas Partners, L.P., AmeriGas Finance Corp., and U.S. Bank National Association, as trustee.</u>	AmeriGas Partners, L.P.	Form 8-K (6/27/16)	4.1
4.21	<u>First Supplemental Indenture, dated as of June 27, 2016, among AmeriGas Partners, L.P., AmeriGas Finance Corp., and U.S. Bank National Association, as trustee.</u>	AmeriGas Partners, L.P.	Form 8-K (6/27/16)	4.2
4.22	<u>Second Supplemental Indenture, dated as of December 28, 2016, among AmeriGas Partners, L.P., AmeriGas Finance Corp., and U.S. Bank National Association, as trustee (including form of global note).</u>	AmeriGas Partners, L.P.	Form 8-K (12/28/16)	4.1
4.23	<u>Third Supplemental Indenture, dated as of February 13, 2017, among AmeriGas Partners, L.P., AmeriGas Finance Corp., and U.S. Bank National Association, as trustee (including form of global note).</u>	AmeriGas Partners, L.P.	Form 8-K (2/13/17)	4.1
10.1**	<u>AmeriGas Propane, Inc. 2010 Long-Term Incentive Plan on Behalf of AmeriGas Partners, L.P. effective July 30, 2010.</u>	AmeriGas Partners, L.P.	Form 8-K (7/30/10)	10.2
10.2**	<u>AmeriGas Propane, Inc. 2010 Long-Term Incentive Plan on Behalf of AmeriGas Partners, L.P. effective January 1, 2016 - Terms and Conditions.</u>	AmeriGas Partners, L.P.	Form 10-K (9/30/16)	10.7
10.3**	<u>AmeriGas Propane, Inc. Executive Annual Bonus Plan, effective as of October 1, 2006, as amended November 15, 2012.</u>	AmeriGas Partners, L.P.	Form 10-Q (3/31/13)	10.9
*10.4**	<u>AmeriGas Propane, Inc. Executive Employee Severance Plan, as amended and restated as of June 15, 2017.</u>			
10.5**	<u>AmeriGas Propane, Inc. Non-Qualified Deferred Compensation Plan, as Amended and Restated effective November 22, 2013.</u>	AmeriGas Partners, L.P.	Form 10-Q (3/31/14)	10.4

Table of Contents

## Incorporation by Reference

Exhibit No.	Exhibit	Registrant	Filing	Exhibit
10.6**	<u>Change in Control Agreement for Kirk R. Oliver dated as of October 1, 2012.</u>	UGI	Form 10-Q (12/31/12)	10.1
10.7**	<u>Change in Control Agreement for Monica M. Gaudiosi dated as of April 23, 2012.</u>	UGI	Form 10-Q (6/30/12)	10.1
10.8**	<u>Change in Control Agreement for Mr. Sheridan Amended and Restated as of March 3, 2012.</u>	AmeriGas Partners, L.P.	Form 10-Q (3/31/12)	10.6
*10.9**	<u>Description of oral compensation arrangement for Messrs. Walsh, Oliver, Perreault and Ms. Gaudiosi.</u>			
*10.10**	<u>Description of oral compensation arrangement for Mr. Sheridan.</u>			
10.11**	<u>AmeriGas Propane, Inc. Supplemental Executive Retirement Plan, as Amended and Restated effective June 15, 2017.</u>	AmeriGas Partners, L.P.	Form 10-Q (6/30/17)	10.1
10.12**	<u>Form of AmeriGas Propane, Inc. 2010 Long-Term Incentive Plan on Behalf of AmeriGas Partners, L.P., Performance Unit Grant Letter for Employees dated January 1, 2017.</u>	AmeriGas Partners, L.P.	Form 10-Q (6/30/17)	10.2
10.13**	<u>Form of AmeriGas Propane, Inc. 2010 Long-Term Incentive Plan on Behalf of AmeriGas Partners, L.P., Phantom Unit Grant Letter for Non Employee Directors, dated January 18, 2017.</u>	AmeriGas Partners, L.P.	Form 10-Q (6/30/17)	10.3
10.14**	<u>AmeriGas Propane, Inc. Senior Executive Employee Severance Plan, as amended as of June 15, 2017.</u>	AmeriGas Partners, L.P.	Form 10-Q (6/30/17)	10.4
10.15**	<u>Form of Change in Control Agreement Amended and Restated as of May 12, 2008 for Mr. Walsh.</u>	UGI	Form 10-Q (6/30/08)	10.3
10.16**	<u>Form of Change in Control Agreement for Mr. Roger Perreault dated December 7, 2015.</u>	UGI	Form 10-K (9/30/16)	10.15
10.17**	<u>Form of Confidentiality and Post-Employment Activities Agreement with AmeriGas Propane, Inc. for Mr. Sheridan.</u>	AmeriGas Partners, L.P.	Form 10-K (9/30/09)	10.29
10.18**	<u>Form of UGI Corporation 2013 Omnibus Incentive Compensation Plan Nonqualified Stock Option Grant Letter for UGI, Utilities and AmeriGas Employees, dated January 1, 2017.</u>	UGI	Form 10-Q (6/30/17)	10.2

Table of Contents

## Incorporation by Reference

Exhibit No.	Exhibit	Registrant	Filing	Exhibit
10.19**	<u>Form of UGI Corporation 2013 Omnibus Incentive Compensation Plan Performance Unit Grant Letter for UGI and Utilities Employees, dated January 1, 2017.</u>	UGI	Form 10-Q (6/30/17)	10.3
10.20**	<u>Form of UGI Corporation 2013 Omnibus Incentive Compensation Plan, Stock Unit Grant Letter for Non Employee Directors, dated January 24, 2017.</u>	UGI	Form 10-Q (6/30/17)	10.4
10.21**	<u>Form of UGI Corporation 2013 Omnibus Incentive Compensation Plan, Nonqualified Stock Option Grant Letter for Non Employee Directors, dated January 24, 2017.</u>	UGI	Form 10-Q (6/30/17)	10.5
*10.22**	<u>Summary of Director Compensation dated October 1, 2017.</u>			
10.23**	<u>UGI Corporation 2004 Omnibus Equity Compensation Plan Amended and Restated as of September 5, 2014.</u>	UGI	Form 10-K (9/30/16)	10.25
10.24**	<u>UGI Corporation 2004 Omnibus Equity Compensation Plan Amended and Restated as of September 5, 2014 - Terms and Conditions as effective January 1, 2016.</u>	UGI	Form 10-K (9/30/16)	10.26
10.25**	<u>UGI Corporation 2009 Deferral Plan, as Amended and Restated effective June 15, 2017.</u>	UGI	Form 10-Q (6/30/17)	10.6
*10.26**	<u>UGI Corporation Supplemental Executive Retirement Plan and Supplemental Savings Plan, as Amended and Restated effective April 1, 2015.</u>			
10.27**	<u>UGI Corporation 2009 Supplemental Executive Retirement Plan for New Employees, as Amended and Restated as of June 15, 2017.</u>	UGI	Form 10-Q (6/30/17)	10.1
10.28**	<u>UGI Corporation 2013 Omnibus Incentive Compensation Plan, effective as of September 5, 2014.</u>	UGI	Form 10-K (9/30/16)	10.30
10.29**	<u>UGI Corporation 2013 Omnibus Incentive Compensation Plan, effective as of September 5, 2014 - Terms and Conditions for Non-Employee Directors effective January 1, 2016.</u>	UGI	Form 10-K (9/30/16)	10.31

Table of Contents

## Incorporation by Reference

Exhibit No.	Exhibit	Registrant	Filing	Exhibit
10.30**	<u>UGI Corporation Executive Annual Bonus Plan effective as of October 1, 2006, as amended November 16, 2012.</u>	UGI	Form 10-Q (3/31/13)	10.14
*10.31**	<u>UGI Corporation Executive Employee Severance Plan, as amended and restated as of June 15, 2017.</u>			
10.32**	<u>UGI Corporation Senior Executive Employee Severance Plan, as amended as of June 15, 2017.</u>	UGI	Form 10-Q (6/30/17)	10.7
10.33**	<u>UGI Utilities, Inc. Executive Annual Bonus Plan, effective as of October 1, 2006, as amended as of November 16, 2012.</u>	Utilities	Form 10-Q (3/31/13)	10.2
10.34**	<u>UGI Utilities, Inc. Senior Executive Employee Severance Plan, as amended as of July 10, 2017.</u>	Utilities	Form 10-Q (6/30/17)	10.1
10.35	<u>Trademark License Agreement dated April 19, 1995 among UGI Corporation, AmeriGas, Inc., AmeriGas Propane, Inc., AmeriGas Partners, L.P. and AmeriGas Propane, L.P.</u>	UGI	Form 10-K (9/30/10)	10.37
10.36	<u>First Amendment, dated as of November 18, 2015, to Trademark License Agreement, dated April 19, 1995, by and among UGI Corporation, AmeriGas, Inc., AmeriGas Propane, Inc., AmeriGas Partners, L.P., and AmeriGas Propane, L.P.</u>	AmeriGas Partners, L.P.	Form 10-K (9/30/15)	10.40
10.37	<u>Trademark License Agreement, dated April 19, 1995 among AmeriGas Propane, Inc., AmeriGas Partners, L.P. and AmeriGas Propane, L.P.</u>	AmeriGas Partners, L.P.	Form 10-Q (12/31/10)	10.1
*10.38	<u>Form of Receivables Purchase Agreement, dated as of November 30, 2001, as amended through and including Amendment No. 18 thereto dated October 27, 2017, by and among UGI Energy Services, LLC, as servicer, Energy Services Funding Corporation, as seller, and PNC Bank, National Association, as issuer and administrator.</u>			

Table of Contents

## Incorporation by Reference

Exhibit No.	Exhibit	Registrant	Filing	Exhibit
*10.39	<u>Form of Purchase and Sale Agreement, dated as of November 30, 2001, as amended through and including Amendment No. 4 thereto dated October 1, 2013, by and between UGI Energy Services, LLC and Energy Services Funding Corporation.</u>			
10.40	<u>FSS Service Agreement No. 79028 effective as of December 1, 2014 by and between Columbia Gas Transmission, LLC and UGI Utilities, Inc.</u>	Utilities	Form 10-K (9/30/14)	10.16
10.41	<u>SST Service Agreement No. 79133 effective as of December 1, 2014 by and between Columbia Gas Transmission, LLC and UGI Utilities, Inc.</u>	Utilities	Form 10-K (9/30/14)	10.19
10.42	<u>Amended and Restated Credit Agreement dated as of June 18, 2014 by and among AmeriGas Propane, L.P., as Borrower, AmeriGas Propane, Inc., as Guarantor, Wells Fargo Securities, LLC, as Sole Lead Arranger and Sole Book Manager, and the other financial institutions from time to time party thereto. Amendment No. 1 dated as of June 20, 2016 to Amended and Restated Credit Agreement dated June 18, 2014 by and among AmeriGas Propane, L.P., as</u>	AmeriGas Partners, L.P.	Form 8-K (6/18/14)	10.1
10.43	<u>Borrower, AmeriGas Propane, Inc., as Guarantor, Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender, and Issuing Lender, Wells Fargo Securities, LLC, as Sole Lead Arranger and Sole Book Manager and the other financial institutions from time to time party thereto.</u>	AmeriGas Partners, L.P.	Form 8-K (6/20/16)	10.2



Table of Contents

## Incorporation by Reference

Exhibit No.	Exhibit	Registrant	Filing	Exhibit
10.44	<u>Credit Agreement, dated as of March 27, 2015 among UGI Utilities, Inc., as borrower, PNC Bank, National Association, as administrative agent, Citizens Bank of Pennsylvania, as syndication agent, PNC Capital Markets LLC and Citizens Bank, N.A., as joint lead arrangers and joint bookrunners and the other financial institutions from time to time parties thereto.</u>	Utilities	Form 8-K (3/27/15)	10.1
10.45	<u>Senior Facilities Agreement dated April 30, 2015 by and among UGI France, as Borrower, Guarantor and Security Grantor, Natixis, as Facility Agent and Security Agent, and other financial institutions from time to time parties thereto.</u>	UGI	Form 10-Q (6/30/15)	10.1
10.46	<u>Amendment to Senior Facilities Agreement, dated March 8, 2017, by and between UGI France, as Borrower, Guarantor and Security Grantor, and Natixis, as Facility Agent and Security Agent.</u>	UGI	Form 10-Q (6/30/17)	10.8
10.47	<u>Second Amended and Restated Credit Agreement, dated February 29, 2016, by and among UGI Energy Services, LLC, as borrower, and JP Morgan Chase Bank, N.A., as administrative agent, and PNC Bank, National Association, as syndication agent, and Wells Fargo Bank, National Association, as documentation agent.</u>	UGI	Form 8-K (2/29/16)	10.1
10.48	<u>Gas Supply and Delivery Service Agreement between UGI Utilities, Inc. and UGI Energy Services, LLC, effective November 1, 2015.</u>	Utilities	Form 10-K (9/30/16)	10.19
10.49	<u>Credit Agreement, dated October 31, 2017, by and among UGI Utilities, Inc., PNC Bank National Association, as administrative agent, The Bank of New York Mellon, as syndication agent, and certain other lenders named therein.</u>	Utilities	Form 8-K (10/31/17)	10.1

Table of Contents

## Incorporation by Reference

Exhibit No.	Exhibit	Registrant	Filing	Exhibit
10.50	<u>Standby Equity Commitment Agreement, dated November 7, 2017, by and among AmeriGas Partners, L.P., AmeriGas Propane, Inc. and UGI Corporation.</u>	AmeriGas Partners, L.P.	Form 8-K (11/7/17)	10.1
14	<u>Code of Ethics for principal executive, financial and accounting officers.</u>	UGI	Form 10-K (9/30/03)	14
*21	<u>Subsidiaries of the Registrant.</u>			
*23	<u>Consent of Ernst &amp; Young LLP</u>			
*31.1	<u>Certification by the Chief Executive Officer relating to the Registrant's Report on Form 10-K for the fiscal year ended September 30, 2017 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>			
*31.2	<u>Certification by the Chief Financial Officer relating to the Registrant's Report on Form 10-K for the fiscal year ended September 30, 2017 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>			
*32	<u>Certification by the Chief Executive Officer and the Chief Financial Officer relating to the Registrant's Report on Form 10-K for the fiscal year ended September 30, 2017, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>			
*101.INS	XBRL Instance			
*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			

\* Filed herewith.

\*\* As required by Item 15(a)(3), this exhibit is identified as a compensatory plan or arrangement.

## ITEM 16. FORM 10-K SUMMARY

None.

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description
10.4	<u>AmeriGas Propane, Inc. Executive Employee Severance Plan, as amended and restated as of June 15, 2017.</u>
10.9	<u>Description of oral compensation arrangement for Messrs. Walsh, Oliver, Perreault and Ms. Gaudiosi.</u>
10.10	<u>Description of oral compensation arrangement for Mr. Sheridan.</u>
10.22	<u>Summary of Director Compensation as of October 1, 2017.</u>
10.26	<u>UGI Corporation Supplemental Executive Retirement Plan and Supplemental Savings Plan, as amended and restated effective April 1, 2015.</u>
10.31	<u>UGI Corporation Executive Employee Severance Plan, as Amended as of June 15, 2017.</u>
10.38	<u>Form of Receivables Purchase Agreement, dated as of November 30, 2001, as amended through and including Amendment No. 18 thereto dated October 27, 2017, by and among UGI Energy Services, LLC, as servicer, Energy Services Funding Corporation, as seller, and PNC Bank, National Association, as issuer and administrator.</u>
10.39	<u>Form of Purchase and Sale Agreement, dated as of November 30, 2001, as amended through and including Amendment No. 4 thereto dated October 1, 2013, by and between UGI Energy Services, LLC and Energy Services Funding Corporation.</u>
21	<u>Subsidiaries of the Registrant.</u>
23	<u>Consent of Ernst &amp; Young LLP.</u>
31.1	<u>Certification by the Chief Executive Officer relating to the Registrant's Report on Form 10-K for the fiscal year ended September 30, 2017 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification by the Chief Financial Officer relating to the Registrant's Report on Form 10-K for the fiscal year ended September 30, 2017 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32	<u>Certification by the Chief Executive Officer and the Chief Financial Officer relating to the Registrant's Report on Form 10-K for the fiscal year ended September 30, 2017, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance
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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

75

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Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

Date: November 21, 2017 By: /s/ Kirk R. Oliver  
Kirk R. Oliver  
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below on November 21, 2017, by the following persons on behalf of the Registrant in the capacities indicated.

Signature	Title
/s/ John L. Walsh John L. Walsh	President and Chief Executive Officer (Principal Executive Officer) and Director
/s/ Kirk R. Oliver Kirk R. Oliver	Chief Financial Officer (Principal Financial Officer)
/s/ Marie-Dominique Ortiz-Landazabal Marie-Dominique Ortiz-Landazabal	Vice President - Accounting and Financial Control and Chief Accounting Officer (Principal Accounting Officer)
/s/ Marvin O. Schlanger Marvin O. Schlanger	Chairman and Director
/s/ M. Shawn Bort M. Shawn Bort	Director
/s/ Theodore A. Dosch Theodore A. Dosch	Director
/s/ Richard W. Gochnauer Richard W. Gochnauer	Director
/s/ Frank S. Hermance Frank S. Hermance	Director
/s/ Anne Pol Anne Pol	Director
/s/ James B. Stallings, Jr. James B. Stallings, Jr.	Director
/s/ Roger B. Vincent	Director

Roger B. Vincent

76

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Table of Contents

UGI CORPORATION AND SUBSIDIARIES  
FINANCIAL INFORMATION  
FOR INCLUSION IN ANNUAL REPORT ON FORM 10-K  
YEAR ENDED SEPTEMBER 30, 2017

F-1

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Table of Contents

UGI CORPORATION AND SUBSIDIARIES  
INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

	Pages
<u>Management’s Annual Report on Internal Control over Financial Reporting</u>	<u>F-3</u>
<u>Financial Statements:</u>	
<u>Report of Independent Registered Public Accounting Firm (on Internal Control Over Financial Reporting)</u>	<u>F-4</u>
<u>Report of Independent Registered Public Accounting Firm (on Consolidated Financial Statements and Schedules)</u>	<u>F-5</u>
<u>Consolidated Balance Sheets as of September 30, 2017 and 2016</u>	<u>F-6</u>
<u>Consolidated Statements of Income for the years ended September 30, 2017, 2016 and 2015</u>	<u>F-7</u>
<u>Consolidated Statements of Comprehensive Income for the years ended September 30, 2017, 2016 and 2015</u>	<u>F-8</u>
<u>Consolidated Statements of Cash Flows for the years ended September 30, 2017, 2016 and 2015</u>	<u>F-9</u>
<u>Consolidated Statements of Changes in Equity for the years ended September 30, 2017, 2016 and 2015</u>	<u>F-10</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F-11</u>
<u>Financial Statement Schedules:</u>	
For the years ended September 30, 2017, 2016 and 2015:	
<u>I — Condensed Financial Information of Registrant (Parent Company)</u>	<u>S-1</u>
<u>II — Valuation and Qualifying Accounts</u>	<u>S-4</u>

We have omitted all other financial statement schedules because the required information is either (1) not present; (2) not present in amounts sufficient to require submission of the schedule; or (3) included elsewhere in the financial statements or related notes.



Table of Contents

Reports of Management

Financial Statements

The Company's consolidated financial statements and other financial information contained in this Annual Report were prepared by management, which is responsible for their fairness, integrity and objectivity. The consolidated financial statements and related information were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include amounts that are based on management's best judgments and estimates.

The Audit Committee of the Board of Directors is composed of three members, each of whom is independent and a non-employee director of the Company. The Committee is responsible for monitoring and overseeing the financial reporting process, the adequacy of internal accounting controls, the independence and performance of the Company's independent registered accounting firm and internal auditors. The Committee meets regularly, with and without management present, with the independent registered accounting firm and the internal auditors, both of which report directly to the Committee. In addition, the Committee provides regular reports to the Board of Directors.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company, as such term is defined in Rule 13a-15(f) of the Securities Exchange Act of 1934, as amended. In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002, management has conducted an assessment, including testing, of the Company's internal control over financial reporting as of September 30, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO 2013 Framework").

Internal control over financial reporting refers to the process, designed under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer, and effected by the Company's Board of Directors, to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate due to changing conditions, or the degree of compliance with the policies or procedures may deteriorate.

Based on its assessment, management has concluded that the Company's internal control over financial reporting was effective as of September 30, 2017, based on the COSO 2013 Framework. Ernst & Young LLP, our independent registered public accounting firm, has audited the effectiveness of the Company's internal control over financial reporting as of September 30, 2017, as stated in their report, which appears herein.

/s/ John L. Walsh  
Chief Executive Officer

/s/ Kirk R. Oliver  
Chief Financial Officer

/s/ Marie-Dominique Ortiz-Landazabal  
Chief Accounting Officer

F-3

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Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of UGI Corporation:

We have audited UGI Corporation's internal control over financial reporting as of September 30, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). UGI Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, UGI Corporation maintained, in all material respects, effective internal control over financial reporting as of September 30, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of UGI Corporation and subsidiaries as of September 30, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended September 30, 2017 of UGI Corporation and subsidiaries and our report dated November 21, 2017 expressed an unqualified opinion thereon.

Philadelphia, Pennsylvania  
November 21, 2017

F-4

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Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of UGI Corporation:

We have audited the accompanying consolidated balance sheets of UGI Corporation and subsidiaries as of September 30, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended September 30, 2017. Our audits also included the financial statement schedules listed in the Index at Item 15(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of UGI Corporation and subsidiaries at September 30, 2017 and 2016, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 2017, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), UGI Corporation's internal control over financial reporting as of September 30, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated November 21, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Philadelphia, Pennsylvania  
November 21, 2017

Table of Contents

UGI CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Millions of dollars)

	September 30,	
	2017	2016
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$558.4	\$502.8
Restricted cash	10.3	15.6
Accounts receivable (less allowances for doubtful accounts of \$26.9 and \$27.3, respectively)	626.8	551.6
Accrued utility revenues	13.3	12.8
Inventories	278.6	210.3
Utility regulatory assets	8.3	3.2
Derivative instruments	63.1	30.9
Prepaid expenses and other current assets	138.7	96.6
Total current assets	1,697.5	1,423.8
Property, plant and equipment		
Non-utility	5,564.6	5,346.4
Utility	3,285.3	2,998.9
	8,849.9	8,345.3
Accumulated depreciation and amortization	(3,312.9 )	(3,107.3 )
Net property, plant, and equipment	5,537.0	5,238.0
Goodwill	3,107.2	2,989.0
Intangible assets, net	611.7	580.3
Utility regulatory assets	360.6	391.9
Derivative instruments	9.2	6.5
Other assets	259.0	217.7
Total assets	\$11,582.2	\$10,847.2
<b>LIABILITIES AND EQUITY</b>		
Current liabilities		
Current maturities of long-term debt	\$177.5	\$29.5
Short-term borrowings	366.9	291.7
Accounts payable	439.6	391.2
Employee compensation and benefits accrued	124.7	115.1
Deposits and advances	206.9	241.3
Derivative instruments	25.0	48.5
Accrued interest	60.7	48.1
Other current liabilities	288.8	276.6
Total current liabilities	1,690.1	1,442.0
Debt and other liabilities		
Long-term debt	3,994.6	3,766.0
Deferred income taxes	1,357.0	1,212.4
Deferred investment tax credits	3.0	3.3
Derivative instruments	21.8	21.9
Other noncurrent liabilities	774.8	806.6
Total liabilities	7,841.3	7,252.2
Commitments and contingencies (Note 15)		
Equity:		
UGI Corporation stockholders' equity:		

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UGI Common Stock, without par value (authorized – 450,000,000 shares; issued – 173,987,691 and 173,894,141 shares, respectively)	1,188.6	1,201.6
Retained earnings	2,106.7	1,834.1
Accumulated other comprehensive loss	(93.4 )	(154.7 )
Treasury stock, at cost	(38.6 )	(36.9 )
Total UGI Corporation stockholders' equity	3,163.3	2,844.1
Noncontrolling interests, principally in AmeriGas Partners	577.6	750.9
Total equity	3,740.9	3,595.0
Total liabilities and equity	\$11,582.2	\$10,847.2

See accompanying Notes to Consolidated Financial Statements.

F-6

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Table of Contents

UGI CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF INCOME  
 (Millions of dollars, except per share amounts)

	Year Ended September 30,		
	2017	2016	2015
Revenues	\$6,120.7	\$5,685.7	\$6,691.1
Costs and Expenses			
Cost of sales (excluding depreciation shown below)	2,837.3	2,437.5	3,736.5
Operating and administrative expenses	1,857.8	1,865.9	1,773.9
Utility taxes other than income taxes	15.6	15.8	16.1
Depreciation	357.3	338.6	313.2
Amortization	59.0	62.3	60.9
Other operating income, net	(10.5 )	(22.4 )	(44.4 )
Operating income	5,116.5	4,697.7	5,856.2
Income (loss) from equity investees	1,004.2	988.0	834.9
Income (loss) from equity investees	4.3	(0.2 )	(1.2 )
Loss on extinguishments of debt	(59.7 )	(48.9 )	—
Losses on foreign currency contracts, net	(23.9 )	—	—
Interest expense	(223.5 )	(228.9 )	(241.9 )
Income before income taxes	701.4	710.0	591.8
Income taxes	(177.6 )	(221.2 )	(177.8 )
Net income including noncontrolling interests	523.8	488.8	414.0
Deduct net income attributable to noncontrolling interests, principally in AmeriGas Partners	(87.2 )	(124.1 )	(133.0 )
Net income attributable to UGI Corporation	\$436.6	\$364.7	\$281.0
Earnings per common share attributable to UGI Corporation stockholders:			
Basic	\$2.51	\$2.11	\$1.62
Diluted	\$2.46	\$2.08	\$1.60
Weighted-average common shares outstanding (thousands):			
Basic	173,662	173,154	173,115
Diluted	177,159	175,572	175,667
Dividends declared per common share	\$0.975	\$0.930	\$0.890

See accompanying Notes to Consolidated Financial Statements.



Table of Contents

UGI CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Millions of dollars)

	Year Ended September 30,		
	2017	2016	2015
Net income including noncontrolling interests	\$523.8	\$488.8	\$414.0
Net gains (losses) on derivative instruments (net of tax of \$(0.5), \$12.3 and \$(8.0), respectively)	1.7	(16.5 )	16.8
Reclassifications of net (gains) losses on derivative instruments (net of tax of \$4.1, \$5.0 and \$(2.8), respectively)	(9.7 )	(8.1 )	1.6
Foreign currency translation adjustments (net of tax of \$(0.6), \$0.0 and \$(1.0), respectively)	34.6	(4.9 )	(63.5 )
Foreign currency gains (losses) on long-term intra-company transactions (net of tax of \$0.0, \$0.0 and \$(6.7), respectively)	24.8	(1.9 )	(50.6 )
Benefit plans, principally actuarial gains (losses) (net of tax of \$(3.8), \$7.1 and \$1.4, respectively)	6.5	(10.9 )	(1.2 )
Reclassifications of benefit plans actuarial losses and net prior service credits (net of tax of \$(2.1), \$(0.4) and \$(0.8), respectively)	3.4	2.2	1.4
Other comprehensive income (loss)	61.3	(40.1 )	(95.5 )
Comprehensive income including noncontrolling interests	585.1	448.7	318.5
Deduct comprehensive income attributable to noncontrolling interests, principally in AmeriGas Partners	(87.2 )	(124.1 )	(130.9 )
Comprehensive income attributable to UGI Corporation	\$497.9	\$324.6	\$187.6

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

UGI CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Millions of dollars)

	Year Ended September 30,		
	2017	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income including noncontrolling interests	\$523.8	\$488.8	\$414.0
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities:			
Depreciation and amortization	416.3	400.9	374.1
Deferred income taxes, net	110.1	77.4	13.7
Provision for uncollectible accounts	30.7	21.7	31.6
Changes in unrealized (gains) losses on derivative instruments	(82.0 )	(91.6 )	119.1
Equity-based compensation expense	19.3	23.8	29.2
Loss on extinguishments of debt	59.7	48.9	—
Settlement of UGI Utilities interest rate protection agreements	—	(36.0 )	—
Loss on private equity partnership investment	11.0	—	—
Other, net	44.1	(7.3 )	(9.7 )
Net change in:			
Accounts receivable and accrued utility revenues	(103.6 )	37.3	163.3
Inventories	(64.7 )	29.4	181.4
Utility deferred fuel costs, net of changes in unsettled derivatives	(15.4 )	(22.7 )	51.8
Accounts payable	49.9	(40.0 )	(134.9 )
Other current assets	(37.5 )	(8.6 )	(25.6 )
Other current liabilities	2.7	47.7	(44.2 )
Net cash provided by operating activities	964.4	969.7	1,163.8
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Expenditures for property, plant and equipment	(638.9 )	(563.8 )	(490.6 )
Acquisitions of businesses, net of cash acquired	(101.6 )	(61.2 )	(447.5 )
Decrease (increase) in restricted cash	6.1	53.7	(52.8 )
Other, net	(29.0 )	12.7	14.6
Net cash used by investing activities	(763.4 )	(558.6 )	(976.3 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends on UGI Common Stock	(168.9 )	(160.7 )	(153.5 )
Distributions on AmeriGas Partners publicly held Common Units	(261.6 )	(257.3 )	(248.9 )
Issuances of debt, net of issuance costs	1,307.1	1,629.5	660.3
Repayments of debt, including redemption premiums	(1,064.8 )	(1,569.9 )	(429.4 )
Receivables Facility net borrowings	13.5	6.0	12.0
Increase (decrease) in short-term borrowings	61.2	95.7	(31.9 )
Issuances of UGI Common Stock	11.0	13.7	11.9
Repurchases of UGI Common Stock	(43.3 )	(47.6 )	(34.1 )
Other	(0.8 )	15.5	(3.5 )
Net cash used by financing activities	(146.6 )	(275.1 )	(217.1 )
Effect of exchange rate changes on cash and cash equivalents	1.2	(2.9 )	(20.2 )
Cash and cash equivalents increase (decrease)	\$55.6	\$133.1	\$(49.8)
<b>CASH AND CASH EQUIVALENTS</b>			
End of year	\$558.4	\$502.8	\$369.7
Beginning of year	502.8	369.7	419.5
Increase (decrease)	\$55.6	\$133.1	\$(49.8)

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for:

Interest	\$202.1	\$228.9	\$227.0
Income taxes	\$98.0	\$134.5	\$173.1

See accompanying Notes to Consolidated Financial Statements.

F-9

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Table of Contents

UGI CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
(Millions of dollars, except per share amounts)

	Year Ended September 30,		
	2017	2016	2015
Common stock, without par value			
Balance, beginning of year	\$1,201.6	\$1,214.6	\$1,215.6
Common stock issued:			
Employee and director plans (including losses on treasury stock transactions), net of tax withheld	(28.2 )	(39.7 )	(22.1 )
Excess tax benefits realized on equity-based compensation	—	15.5	8.3
Equity-based compensation expense	13.2	11.2	13.2
Gain on sale of treasury stock	2.0	—	—
Loss from acquisition of noncontrolling interests through business combination	—	—	(0.4 )
Balance, end of year	\$1,188.6	\$1,201.6	\$1,214.6
Retained earnings			
Balance, beginning of year	\$1,834.1	\$1,630.1	\$1,502.6
Cumulative effect of change in accounting for share-based payments	4.9	—	—
Net income attributable to UGI Corporation	436.6	364.7	281.0
Cash dividends on common stock	(168.9 )	(160.7 )	(153.5 )
Balance, end of year	\$2,106.7	\$1,834.1	\$1,630.1
Accumulated other comprehensive income (loss)			
Balance, beginning of year	\$(154.7 )	\$(114.6 )	\$(21.2 )
Net gains (losses) on derivative instruments	1.7	(16.5 )	16.8
Reclassification of net (gains) losses on derivative instruments	(9.7 )	(8.1 )	3.7
Benefit plans, principally actuarial gains (losses)	6.5	(10.9 )	(1.2 )
Reclassification of benefit plans actuarial losses and net prior service credits	3.4	2.2	1.4
Foreign currency gains (losses) on long-term intra-company transactions	24.8	(1.9 )	(50.6 )
Foreign currency translation adjustments	34.6	(4.9 )	(63.5 )
Balance, end of year	\$(93.4 )	\$(154.7 )	\$(114.6 )
Treasury stock			
Balance, beginning of year	\$(36.9 )	\$(44.9 )	\$(44.7 )
Common stock issued:			
Employee and director plans	49.6	84.7	40.5
Repurchases of common stock	(43.3 )	(47.6 )	(34.1 )
Reacquired common stock – employee and director plans	(8.2 )	(29.1 )	(6.6 )
Sale of treasury stock	0.2	—	—
Balance, end of year	\$(38.6 )	\$(36.9 )	\$(44.9 )
Total UGI Corporation stockholders' equity	\$3,163.3	\$2,844.1	\$2,685.2
Noncontrolling interests			
Balance, beginning of year	\$750.9	\$880.4	\$1,004.1
Net income attributable to noncontrolling interests, principally in AmeriGas Partners	87.2	124.1	133.0
Reclassification of net gains on derivative instruments	—	—	(2.1 )
Dividends and distributions	(261.6 )	(257.3 )	(249.4 )
Change in noncontrolling interests as a result of business combination	—	—	(5.2 )
Other	1.1	3.7	—
Balance, end of year	\$577.6	\$750.9	\$880.4
Total equity	\$3,740.9	\$3,595.0	\$3,565.6
See accompanying Notes to Consolidated Financial Statements.			



Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

Index to Notes

Note 1 — Nature of Operations

Note 2 — Summary of Significant Accounting Policies

Note 3 — Accounting Changes

Note 4 — Acquisitions

Note 5 — Debt

Note 6 — Income Taxes

Note 7 — Employee Retirement Plans

Note 8 — Utility Regulatory Assets and Liabilities and Regulatory Matters

Note 9 — Inventories

Note 10 — Property, Plant and Equipment

Note 11 — Goodwill and Intangible Assets

Note 12 — Series Preferred Stock

Note 13 — Common Stock and Equity-Based Compensation

Note 14 — Partnership Distributions

Note 15 — Commitments and Contingencies

Note 16 — Fair Value Measurements

Note 17 — Derivative Instruments and Hedging Activities

Note 18 — Accumulated Other Comprehensive Income (Loss)

Note 19 — Other Operating Income, Net

Note 20 — Quarterly Data (unaudited)

Note 21 — Segment Information

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 September 30, 2017, the General Partner held a 1% general partner interest and a 25.3% limited partner interest in AmeriGas Partners and held an effective 27.1% 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 (see Note 14).

Our wholly owned subsidiary, UGI Enterprises, LLC (“Enterprises”) (formerly known as UGI Enterprises, Inc. prior to its merger with and into UGI Enterprises, LLC effective October 1, 2017), through subsidiaries, conducts (1) an LPG

distribution business in France and in northern, central and eastern European countries, and (2) natural gas marketing businesses in France, Belgium and the United Kingdom, and a natural gas and electricity marketing business in the Netherlands. These businesses are conducted principally through our subsidiaries, UGI France SAS, Flaga GmbH (“Flaga”) and AvantiGas Limited. We refer to our foreign operations collectively as “UGI International.” On May 29, 2015, UGI France SAS (a Société par actions simplifiée) (“France SAS”) (formerly UGI Bordeaux Holding), an indirect wholly owned subsidiary of UGI, purchased all of the outstanding shares of Totalgaz SAS (the “Totalgaz Acquisition”),

F-11

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

a retail distributor of LPG in France. The retail LPG distribution business of Totalgaz SAS and its subsidiaries is referred to herein as “Finagaz” and is included in our UGI International reportable segment (see Notes 4 and 21). The retail LPG distribution business of France SAS prior to the Totalgaz Acquisition is also referred to herein as “Antargaz.” 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. 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

## Basis of Presentation

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and costs. These estimates are based on management’s knowledge of current events, historical experience and various other assumptions that are believed to be reasonable under the circumstances. Accordingly, actual results may be different from these estimates and assumptions.

Certain prior-year amounts have been reclassified to conform to the current-year presentation. Also, during Fiscal 2017, we corrected an immaterial error in our cylinder deposit liability account at two UGI International subsidiaries that arose prior to Fiscal 2015 which decreased opening retained earnings as of October 1, 2015 by \$6.8, or 0.5%, increased other noncurrent liabilities by \$10.6 and decreased deferred income tax liabilities by \$3.8.

## Principles of Consolidation

The consolidated financial statements include the accounts of UGI and its controlled subsidiary companies which, except for the Partnership, are majority owned. We report the public’s interests in the Partnership, and outside ownership interests in other consolidated but less than 100%-owned subsidiaries, as noncontrolling interests. We eliminate intercompany accounts and transactions when we consolidate.

Entities in which we do not have control but have significant influence over operating and financial policies are accounted for by the equity method. Investments in business entities that are not publicly traded and in which we do not have significant influence over operating and financial policies are accounted for using the cost method.

Our equity and cost method investments are included in “Other assets” on the Consolidated Balance Sheets and comprise the following amounts at September 30, 2017 and 2016:

	2017	2016
Equity method investments	\$59.1	\$25.9



Cost method investments (a) \$61.3 \$70.1

(a) Cost method investments at September 30, 2017 and 2016 include \$7.0 and \$18.0, respectively, associated with our investment in a private equity partnership that invests in renewable energy companies.

F-12

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

A wholly owned subsidiary of UGI, UGI PennEast, LLC, and four other members comprising wholly owned subsidiaries of Southern Company, New Jersey Resources, South Jersey Industries, and Enbridge, Inc., hold 20% membership interests each in PennEast Pipeline Company, LLC (“PennEast”). PennEast is focused on constructing an approximate 118-mile natural gas pipeline from Luzerne County, Pennsylvania to the Trenton-Woodbury interconnection in New Jersey. Affiliates of all members plan to be customers of the pipeline under 15-year contracts. PennEast is considered to be an equity method investment as we have the ability to exercise significant influence, but not control, over PennEast. We are obligated to provide capital contributions based upon our ownership percentage. Our investment in PennEast at September 30, 2017 and 2016 totaled \$51.0 and \$17.4, respectively.

Effects of Regulation

UGI Utilities accounts for the financial effects of regulation in accordance with the Financial Accounting Standards Board’s (“FASB’s”) guidance in Accounting Standards Codification (“ASC”) 980, “Regulated Operations.” In accordance with this guidance, incurred costs and estimated future expenditures that would otherwise be charged to expense are capitalized and recorded as regulatory assets when it is probable that the incurred costs or estimated future expenditures will be recovered in rates in the future. Similarly, we recognize regulatory liabilities when it is probable that regulators will require customer refunds through future rates or when revenue is collected from customers for expenditures that have not yet been incurred. Regulatory assets and liabilities are classified as current if, upon initial recognition, the entire amount related to that item will be recovered or refunded within a year of the balance sheet date. Generally, regulatory assets and regulatory liabilities are amortized into expense and income over the periods authorized by the regulator. For additional information regarding the effects of rate regulation on our utility operations, see Note 8.

Fair Value Measurements

The Company applies fair value measurements on a recurring and, as otherwise required under GAAP, on a nonrecurring basis. Fair value in GAAP is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. Fair value measurements performed on a recurring basis principally relate to derivative instruments and investments held in supplemental executive retirement plan grantor trusts.

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). A level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

We use the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

• Level 1 — Quoted prices (unadjusted) in active markets for identical assets and liabilities that we have the ability to access at the measurement date.

• Level 2 — Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means.

• Level 3 — Unobservable inputs for the asset or liability including situations where there is little, if any, market activity for the asset or liability.

Fair value is based upon assumptions that market participants would use when pricing an asset or liability, including assumptions about risk and risks inherent in valuation techniques and inputs to valuations. This includes not only the credit standing of counterparties and credit enhancements but also the impact of our own nonperformance risk on our liabilities. We evaluate the need for credit adjustments to our derivative instrument fair values. These credit adjustments were not material to the fair values of our derivative instruments.

Derivative Instruments

Derivative instruments are reported on the Consolidated Balance Sheets at their fair values, unless the derivative instruments qualify for the normal purchase and normal sale (“NPNS”) exception under GAAP. The accounting for changes in fair value depends upon the purpose of the derivative instrument and whether it is designated and qualifies for hedge accounting.

F-13

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

Certain of our derivative instruments are designated and qualify as cash flow hedges and from time to time we also enter into net investment hedges. For cash flow hedges, changes in the fair values of the derivative instruments are recorded in accumulated other comprehensive income (loss) (“AOCI”) or noncontrolling interests, 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. 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. 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.

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 between 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 “Losses on foreign currency contracts, net” on the Consolidated Statements of Income.

Cash flows from derivative instruments, other than net investment hedges and certain cross-currency swaps, if any, are included in cash flows from operating activities on the Consolidated Statements of Cash Flows. Cash flows from net investment hedges, if any, are included in cash flows from investing activities on the Consolidated Statements of Cash Flows. Cash flows from the interest portion of our cross-currency hedges, if any, are included in cash flow from operating activities while cash flows from the currency portion of such hedges, if any, are included in cash flow from financing activities.

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 17.

Foreign Currency Translation

Balance sheets of international subsidiaries are translated into U.S. dollars using the exchange rate at the balance sheet date. Income statements and equity investee results are translated into U.S. dollars using an average exchange rate for each reporting period. Where the local currency is the functional currency, translation adjustments are recorded in other comprehensive income.

Revenue Recognition

Revenues from the sale of LPG are recognized principally upon delivery. Midstream & Marketing and our UGI International energy marketing business record revenues when energy products are delivered or services are provided to customers. Revenues from the sale of appliances and equipment are recognized at the later of sale or installation. Revenues from repair or maintenance services are recognized upon completion of services.

UGI Utilities’ regulated revenues are recognized as natural gas and electricity are delivered and include estimated amounts for distribution service rendered and commodities delivered but not billed at the end of each month. We reflect the impact of Gas Utility and Electric Utility rate increases or decreases at the time they become effective. We present revenue-related taxes collected on behalf of customers and remitted to taxing authorities, principally sales and use taxes, on a net basis. Electric Utility gross receipts taxes are included in “Utility taxes other than income taxes” on the Consolidated Statements of Income in accordance with regulatory practice.

Accounts Receivable

Accounts receivable are reported on the Consolidated Balance Sheets at the gross outstanding amount adjusted for an allowance for doubtful accounts. Accounts receivable that are acquired are initially recorded at fair value on the date of acquisition. Provisions for uncollectible accounts are established based upon our collection experience and the assessment of the collectability of specific amounts. Accounts receivable are written off in the period in which the receivable is deemed uncollectible.

LPG Delivery Expenses

Expenses associated with the delivery of LPG to customers of the Partnership and our UGI International operations (including vehicle expenses, expenses of delivery personnel, vehicle repair and maintenance and general liability expenses) are classified as “Operating and administrative expenses” on the Consolidated Statements of Income. Depreciation expense associated with the Partnership and UGI International delivery vehicles is classified in “Depreciation” on the Consolidated Statements of Income.

F-14

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

## Income Taxes

AmeriGas Partners and AmeriGas OLP are not directly subject to federal income taxes. Instead, their taxable income or loss is allocated to the individual partners. We record income taxes on (1) our share of the Partnership's current taxable income or loss and (2) the differences between the book and tax basis of our investment in the Partnership. AmeriGas OLP has subsidiaries which operate in corporate form and are directly subject to federal and state income taxes. Legislation in certain states allows for taxation of partnership income and the accompanying financial statements reflect state income taxes resulting from such legislation.

UGI Utilities records deferred income taxes in the Consolidated Statements of Income resulting from the use of accelerated tax depreciation methods based upon amounts recognized for ratemaking purposes. UGI Utilities also records a deferred income tax liability for tax benefits, principally the result of accelerated tax depreciation for state income tax purposes that are flowed through to ratepayers when temporary differences originate and record a regulatory income tax asset for the probable increase in future revenues that will result when the temporary differences reverse.

We are amortizing deferred investment tax credits related to UGI Utilities' plant additions over the service lives of the related property. UGI Utilities reduces its deferred income tax liability for the future tax benefits that will occur when investment tax credits, which are not taxable, are amortized. We also reduce the regulatory income tax asset for the probable reduction in future revenues that will result when such deferred investment tax credits amortize.

We record interest on tax deficiencies and income tax penalties in "Income taxes" on the Consolidated Statements of Income. For Fiscal 2017, Fiscal 2016 and Fiscal 2015, interest income or expense recognized in "Income taxes" on the Consolidated Statements of Income was not material.

## Earnings Per Common Share

Basic earnings per share attributable to UGI Corporation stockholders 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. In the following table, we present shares used in computing basic and diluted earnings per share for Fiscal 2017, Fiscal 2016 and Fiscal 2015:

(Thousands of shares)	2017	2016	2015
Weighted-average common shares outstanding for basic computation	173,662	173,154	173,115
Incremental shares issuable for stock options and common stock awards (a)	3,497	2,418	2,552
Weighted-average common shares outstanding for diluted computation	177,159	175,572	175,667

For Fiscal 2017, Fiscal 2016 and Fiscal 2015, there were 146 shares, 38 shares and 1 share, respectively, associated with outstanding stock option awards that were not included in the computation of diluted earnings per share above (a) because their effect was antidilutive. See "Equity-Based Compensation" below for a description of the impact on the calculation of diluted shares for Fiscal 2017, resulting from the adoption of new accounting guidance regarding share-based payments.

## Cash and Cash Equivalents

For cash flow purposes, cash and cash equivalents include cash on hand, cash in banks and highly liquid investments with maturities of three months or less when purchased.

## Restricted Cash

Restricted cash principally represents those cash balances in our commodity futures brokerage accounts that are restricted from withdrawal.

## Inventories

Our inventories are stated at the lower of cost or net realizable value. We determine cost using an average cost method for non-utility LPG and natural gas and Gas Utility natural gas; specific identification for appliances; and the first-in, first-out ("FIFO") method for all other inventories.



Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

## Property, Plant and Equipment and Related Depreciation

We record property, plant and equipment at original cost. Capitalized costs include labor, materials and other direct and indirect costs, and for certain operations subject to cost-of-service rate regulation, allowance for funds used during construction (“AFUDC”). The amounts assigned to property, plant and equipment of acquired businesses are based upon estimated fair value at date of acquisition.

We record depreciation expense on non-utility plant and equipment on a straight-line basis over estimated economic useful lives. At September 30, 2017, estimated useful lives by type were as follows:

Asset Type	Minimum Estimated Useful Life (in years)	Maximum Estimated Useful Life (in years)
Buildings and improvements	10	40
Equipment, primarily cylinders and tanks	5	40
Electricity generation facilities	25	40
Pipeline and related assets	25	40
Transportation equipment and office furniture and fixtures	3	12
Computer software	1	10

We record depreciation expense for UGI Utilities’ plant and equipment on a straight-line basis based upon the projected service lives of the various classes of its depreciable property. The average composite depreciation rates at our Gas Utility and Electric Utility for Fiscal 2017, 2016 and 2015 were as follows:

	2017	2016	2015
Gas Utility	2.2%	2.2%	2.2%
Electric Utility	2.4%	2.5%	2.5%

When UGI Utilities retires depreciable utility plant and equipment, we charge the original cost to accumulated depreciation for financial accounting purposes. Costs incurred to retire utility plant and equipment, net of salvage, are recorded in regulatory assets and amortized over five years, consistent with prior ratemaking treatment.

No depreciation expense is included in cost of sales in the Consolidated Statements of Income.

## Goodwill and Intangible Assets

We amortize intangible assets over their estimated useful lives unless we determine their lives to be indefinite. No amortization expense of intangible assets is included in cost of sales in the Consolidated Statements of Income (see Note 11). Estimated useful lives of definite-lived intangible assets, primarily consisting of customer relationships, certain tradenames and noncompete agreements, do not exceed 15 years. We review definite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the associated carrying amounts may not be recoverable. Determining whether an impairment loss occurred requires comparing the carrying amount to the sum of undiscounted cash flows expected to be generated by the asset. 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. We do not amortize goodwill, but test it at least annually for impairment at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment (a component) if discrete financial information is prepared and regularly reviewed by segment management. Components are aggregated as a single reporting unit if they have similar economic characteristics. Each of our reporting units with goodwill is required to perform impairment tests annually or whenever events or circumstances indicate that the value of goodwill may be impaired. During the fourth quarter of Fiscal 2017, the Company adopted new accounting guidance simplifying the test for goodwill impairment. The adoption of the new guidance did not impact the consolidated financial statements (see Note 3).





Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

For certain of our reporting units with goodwill, we assess qualitative factors to determine whether it is more likely than not that the fair value of such reporting unit is less than its carrying amount. For our other reporting units with goodwill, we bypass the qualitative assessment and perform the quantitative assessment by comparing the fair values of the reporting units with their carrying amounts, including goodwill. We determine fair values generally based on a weighting of income and market approaches. For purposes of the income approach, fair values are determined based upon the present value of the reporting unit's estimated future cash flows, including an estimate of the reporting unit's terminal value based upon these cash flows, discounted at appropriate risk-adjusted rates. We use our internal forecasts to estimate future cash flows which may include estimates of long-term future growth rates based upon our most recent reviews of the long-term outlook for each reporting unit. Cash flow estimates used to establish fair values under our income approach involve management judgments based on a broad range of information and historical results. In addition, external economic and competitive conditions can influence future performance. For purposes of the market approach, we use valuation multiples for companies comparable to our reporting units. The market approach requires judgment to determine the appropriate valuation multiples. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to such excess but not to exceed the total amount of the goodwill of the reporting unit.

There were no accumulated impairment losses at September 30, 2017 and 2016, and no provisions for goodwill or other intangible asset impairments were recorded during Fiscal 2017, Fiscal 2016 or Fiscal 2015.

**Impairment of Long-Lived Assets and Cost Basis Investments**

We evaluate long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We evaluate recoverability based upon undiscounted future cash flows expected to be generated by such assets. No material provisions for impairments were recorded during Fiscal 2017, Fiscal 2016 or Fiscal 2015.

We reduce the carrying values of our cost basis investments when we determine that a decline in fair value is other than temporary. During Fiscal 2017, we recorded a pre-tax loss of \$11.0 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 Consolidated Statements of Income. No other-than-temporary impairment losses were recognized during Fiscal 2016 or Fiscal 2015.

**Deferred Debt Issuance Costs**

We defer and amortize debt issuance costs and debt premiums and discounts over the expected lives of the respective debt issues considering maturity dates. Deferred debt issuance costs associated with long-term debt are reflected as a direct deduction from the carrying amount of such debt. Deferred debt issuance costs associated with line of credit facilities are classified as "Other assets" on our Consolidated Balance Sheets. Amortization of the issuance costs is reported as interest expense. Unamortized costs associated with redemptions of debt prior to their stated maturity are generally recognized and recorded in loss on extinguishment of debt. As permitted by regulatory authorities, gains or losses resulting from refinancings of UGI Utilities' debt are deferred and amortized over the lives of the new issuances.

**Refundable Tank and Cylinder Deposits**

Included in "Other noncurrent liabilities" on our Consolidated Balance Sheets are customer paid deposits on tanks and cylinders primarily owned by subsidiaries of France SAS of \$279.9 and \$267.2 at September 30, 2017 and 2016, respectively. Deposits are refundable to customers when the tanks or cylinders are returned in accordance with contract terms.

**Environmental Matters**

We are subject to environmental laws and regulations intended to mitigate or remove the effects of past operations and improve or maintain the quality of the environment. These laws and regulations require the removal or remedy of the effect on the environment of the disposal or release of certain specified hazardous substances at current or former

operating sites.

Environmental reserves are accrued when assessments indicate that it is probable that a liability has been incurred and an amount can be reasonably estimated. Amounts recorded as environmental liabilities on the balance sheets represent our best estimate of costs expected to be incurred or, if no best estimate can be made, the minimum liability associated with a range of expected environmental investigation and remediation costs. Our estimated liability for environmental contamination is reduced to reflect anticipated participation of other responsible parties but is not reduced for possible recovery from insurance carriers. In those instances for which the amount and timing of cash payments associated with environmental investigation and cleanup are reliably

F-17

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

determinable, we discount such liabilities to reflect the time value of money. We intend to pursue recovery of incurred costs through all appropriate means, including regulatory relief. UGI Gas, CPG and PNG receive ratemaking recognition of environmental investigation and remediation costs associated with their environmental sites. This ratemaking recognition balances the accumulated difference between historical costs and rate recoveries with an estimate of future costs associated with the sites. For further information, see Note 15.

Employee Retirement Plans

We use a market-related value of plan assets and an expected long-term rate of return to determine the expected return on assets of our U.S. pension and other postretirement plans. The market-related value of plan assets, other than equity investments, is based upon fair values. The market-related value of equity investments is calculated by rolling forward the prior-year's market-related value with contributions, disbursements and the expected return on plan assets. One third of the difference between the expected and the actual value is then added to or subtracted from the expected value to determine the new market-related value (see Note 7).

Equity-Based Compensation

All of our equity-based compensation, principally comprising UGI stock options, grants of UGI stock-based equity instruments and grants of AmeriGas Partners equity instruments (together with UGI stock-based equity instruments, "Units" or "Unit awards"), are measured at fair value on the grant date, date of modification or end of the period, as applicable. Compensation expense is recognized on a straight-line basis over the requisite service period. Depending upon the settlement terms of the awards, all or a portion of the fair value of equity-based awards may be presented as a liability or as equity on our Consolidated Balance Sheets. Equity-based compensation costs associated with the portion of Unit awards classified as equity are measured based upon their estimated fair value on the date of grant or modification. Equity-based compensation costs associated with the portion of Unit awards classified as liabilities are measured based upon their estimated fair value at the grant date and remeasured as of the end of each period.

We record deferred tax assets for awards that we expect will result in deductions on our income tax returns based on the amount of compensation cost recognized and the statutory tax rate in the jurisdiction in which we will receive a deduction. Prior to the adoption of new accounting guidance effective October 1, 2016, differences between the deferred tax assets recognized for financial reporting purposes and the actual tax benefit received on the income tax return were recorded in Common Stock (if the tax benefit exceeded the deferred tax asset) or in the Consolidated Statements of Income (if the deferred tax asset exceeded the tax benefit and no tax windfall pool existed from previous awards). We calculated this tax windfall pool using the shortcut method.

Effective October 1, 2016, we adopted Accounting Standards Update ("ASU") No. 2016-09, "Improvements to Employee Share-Based Payments Accounting" ("ASU 2016-09") issued to simplify several aspects of accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. Among other things, excess tax benefits and tax deficiencies associated with employee share-based awards that vest or are exercised are recognized as income tax benefit or expense and treated as discrete items in the reporting period in which they occur. In addition, assumed proceeds under the treasury stock method used for computing diluted shares outstanding no longer include windfall tax benefits in the diluted shares calculation.

In accordance with the required prospective method of transition relating to excess tax benefits, we recognized income tax benefits of \$10.3 related to excess tax benefits for share-based awards that were exercised or vested during Fiscal 2017. This amount is reflected in "Income taxes" on the Consolidated Statements of Income. In addition, upon the adoption of ASU 2016-09, we recorded a \$4.9 increase to retained earnings and decrease to deferred income tax liabilities for excess tax benefits related to prior period unrecognized state tax benefits. We elected to use the prospective method of transition for classifying excess tax benefits as cash flow from operating activities on the Consolidated Statements of Cash Flows and prior periods were not adjusted. We have historically presented employee taxes paid for net settled awards as a financing activity on the Consolidated Statements of Cash Flows and therefore there is no transition impact from this requirement. In addition, as provided by the new guidance, we elected to

account for forfeitures of share-based payments when they occur.

For additional information on our equity-based compensation plans and related disclosures, see Note 13.

F-18

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

Note 3 — Accounting Changes

Adoption of New Accounting Standards

**Definition of a Business.** During the fourth quarter of Fiscal 2017, the Company adopted new accounting guidance which clarifies the definition of a business. The new guidance is intended to assist entities with evaluating whether a set of transferred assets and activities comprises a business. The guidance is required to be applied prospectively. The adoption of the new guidance did not impact our consolidated financial statements.

**Cash Flow Classification.** During the fourth quarter of Fiscal 2017, the Company adopted new accounting guidance on the classification of certain cash receipts and payments in the statement of cash flows. The guidance is generally required to be applied retrospectively. The adoption of the new guidance did not impact our consolidated financial statements.

**Goodwill Impairment.** During the fourth quarter of Fiscal 2017, the Company adopted new accounting guidance regarding the test for goodwill impairment. Under the new accounting guidance, an entity will perform its goodwill impairment tests by comparing the fair value of a reporting unit with its carrying amount. An entity will recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value but not to exceed the total amount of the goodwill of the reporting unit. The guidance is required to be applied prospectively. The adoption of the new guidance did not impact our consolidated financial statements.

**Employee Share-based Payments.** Effective October 1, 2016, the Company adopted ASU 2016-09 regarding share-based payments. See Note 2 for a detailed description of the impact of the new guidance.

**Equity Method Accounting.** Effective October 1, 2016, the Company adopted new accounting guidance regarding the accounting for an investment that qualifies for use of the equity method as a result of an increase in an investor's level of ownership or influence. The guidance requires that the equity method investor add the cost of acquiring an additional interest to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date such investment qualifies for equity method accounting. The new guidance eliminates the previous requirement in such circumstances to apply the effects of the equity method of accounting retrospectively. The guidance is required to be applied prospectively. The adoption of the new guidance did not impact our consolidated financial statements.

Accounting Standards Not Yet Adopted

**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.

**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 operating income. The amendments in this ASU permit only the service cost component to be eligible for capitalization when applicable. The amendments in this ASU are effective for interim and annual periods beginning after December 15, 2017 (Fiscal 2019). Early adoption is permitted. The amendments in the ASU should generally be adopted on a retrospective basis. 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.

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 this ASU are effective for interim and annual periods beginning after December 15, 2017 (Fiscal 2019). Early adoption is permitted. The amendments in the ASU are required to be adopted on a retrospective basis. 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.

F-19

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

**Leases.** In February 2016, the FASB issued ASU No. 2016-02, "Leases." This ASU 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. 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 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 ASU 2014-09, as amended, supersedes the revenue recognition requirements in 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 continues to monitor developments associated with certain utility industry specific guidance for possible impacts on the recognition of revenue by UGI Utilities.

The Company currently anticipates that it will adopt the new standard using the modified retrospective transition method effective October 1, 2018. The ultimate decision with respect to the transition method that it will use will depend upon the completion of the Company's analysis including confirming its preliminary conclusion that the adoption of the new guidance will not have a material impact on its consolidated financial statements.

Note 4 — Acquisitions

Acquisition of Totalgaz

On May 29, 2015 (the "Acquisition Date"), UGI, through its wholly owned indirect subsidiary, France SAS, acquired all of the outstanding shares of Totalgaz SAS, a retail distributor of LPG in France, for €451.8 (\$496.6) in cash, including €30.0 (\$33.0) for estimated Acquisition Date working capital. In November 2015, France SAS received €1.1 (\$1.2) of cash as a result of the completion of the final working capital amount. The Totalgaz Acquisition was consummated pursuant to the terms of a Share Purchase Agreement dated November 11, 2014, between Total Marketing Services, a subsidiary of global energy company, Total, and France SAS. The Totalgaz Acquisition nearly doubled our retail LPG distribution business in France and was consistent with our growth strategies, one of which is to grow our core business through acquisitions. The Totalgaz Acquisition was funded from existing cash balances and a portion of loan proceeds from France SAS's May 29, 2015, issuance of a €600 term loan under its 2015 Senior Facilities Agreement (see Note 5).



F-20

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

The Company accounted for the Totalgaz Acquisition using the acquisition method. The components of the final Totalgaz purchase price allocation are as follows:

Assets acquired:

Cash	\$86.8
Accounts receivable (a)	170.3
Prepaid expenses and other current assets	11.0
Property, plant and equipment	375.6
Intangible assets (b)	91.3
Other assets	21.4
Total assets acquired	\$756.4

Liabilities assumed:

Accounts payable	109.2
Other current liabilities	103.5
Deferred income taxes	117.5
Other noncurrent liabilities	113.4
Total liabilities assumed	\$443.6
Goodwill	183.8
Net consideration transferred (including working capital adjustments)	\$496.6

(a) Approximates the gross contractual amounts of receivables acquired.

(b) Comprises \$79.3 of customer relationships and \$12.0 of tradenames (\$8.3 of which is subject to amortization), having average amortization periods of 15 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;

Tradenames were valued using the relief from royalty method, which estimates our theoretical royalty savings from ownership of the tradenames. Key assumptions used in this method include discount rates, royalty rates, growth rates and sales 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.

The excess of the purchase price for the Totalgaz Acquisition over the fair values of the assets acquired and liabilities assumed has been reflected as goodwill, assigned to the UGI International reportable segment, and results principally from anticipated synergies and value creation resulting from the Company's combined LPG businesses in France. The goodwill is not deductible for income tax purposes.

The Company recognized \$16.1 of direct transaction-related costs associated with the Totalgaz Acquisition during Fiscal 2015, which are reflected primarily in "Operating and administrative expenses" on the Consolidated Statements of Income. The acquisition of Totalgaz did not have a material impact on the Company's revenues or net income attributable to UGI for the year ended September 30, 2015.

Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

The following table presents unaudited pro forma revenues, net income attributable to UGI Corporation and earnings per share data for Fiscal 2015 as if the Totalgaz Acquisition had occurred on October 1, 2014. The unaudited pro forma consolidated information reflects the historical results of Totalgaz SAS and its subsidiaries after giving effect to adjustments directly attributable to the transaction, including depreciation, amortization, interest expense, intercompany eliminations and related income tax effects. The unaudited pro forma net income also reflects the effects of the issuance of the €600 term loan under France SAS's 2015 Senior Facilities Agreement and the associated repayment of the term loan outstanding under Antargaz' 2011 Senior Facilities Agreement as if such transactions had occurred on October 1, 2014. Amounts in the table below exclude costs associated with extinguishment of debt under Antargaz' 2011 Senior Facilities Agreement (see Note 5):

	2015	
	As Reported	Pro Forma Adjusted
Revenues	\$6,691.1	\$7,065.8
Net income attributable to UGI Corporation	\$281.0	\$341.2
Earnings per common share attributable to UGI Corporation stockholders:		
Basic	\$1.62	\$1.97
Diluted	\$1.60	\$1.94

The unaudited pro forma consolidated information is not necessarily indicative of the results that would have occurred had the Totalgaz Acquisition occurred on the date indicated nor are they necessarily indicative of future operating results.

Other Acquisitions

During Fiscal 2017, UGI International acquired an energy marketing business with operations in the Netherlands and an LPG distribution business with operations in Sweden, and AmeriGas Propane acquired several retail propane distribution businesses. During Fiscal 2016, UGI International acquired several LPG distribution businesses with operations in Austria, Norway and the United Kingdom, and AmeriGas Propane acquired several retail propane distribution businesses. During Fiscal 2015, in addition to the Totalgaz Acquisition in France, UGI International acquired an LPG distribution business with operations in Hungary, and AmeriGas Propane acquired several retail propane distribution businesses.

Total cash paid and liabilities incurred in connection with these acquisitions were as follows:

	2017		2016		2015	
	AmeriGas	UGI	AmeriGas	UGI	AmeriGas	UGI
	Propane	International	Propane	International	Propane	International
Total cash paid	\$36.8	\$ 99.7	\$37.6	\$ 24.1	\$20.8	\$ 17.6
Liabilities incurred (a)	10.8	20.6	11.8	—	4.2	—
Total purchase price	\$47.6	\$ 120.3	\$49.4	\$ 24.1	\$25.0	\$ 17.6

(a) Reflects notes payable to seller and liabilities associated with noncompete agreements.

Note 5 — DebtSignificant Financing Activities

AmeriGas Propane. During Fiscal 2017, AmeriGas Partners issued, in underwritten offerings, \$700 principal amount of 5.50% Senior Notes due May 2025 and \$525 principal amount of 5.75% Senior Notes due May 2027 (collectively, the "AmeriGas 2017 Senior Notes"). The AmeriGas 2017 Senior Notes rank equally with AmeriGas Partners' existing outstanding senior notes. The net proceeds from the issuance of the AmeriGas 2017 Senior Notes were used (1) for the early repayment, pursuant to tender offers and notices of redemption, of all of AmeriGas Partners' 7.00% Senior

Notes, having an aggregate principal balance of \$980.8 plus accrued and unpaid interest and early redemption premiums, and (2) for general corporate purposes.

F-22

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

During Fiscal 2016, AmeriGas Partners issued in an underwritten offering \$675 principal amount of 5.625% Senior Notes due May 2024 and \$675 principal amount of 5.875% Senior Notes due August 2026 (collectively, the “AmeriGas 2016 Senior Notes”). The AmeriGas 2016 Senior Notes rank equally with AmeriGas Partners’ existing outstanding senior notes. The net proceeds from the issuance of the AmeriGas 2016 Senior Notes were used (1) for the early repayment, pursuant to tender offers and notices of redemption, of all of AmeriGas Partners’ previously issued 6.50% Senior Notes, 6.75% Senior Notes and 6.25% Senior Notes, having an aggregate principal balance of \$1,270.0 plus accrued and unpaid interest and early redemption premiums and (2) for general corporate purposes. In connection with the early repayments of AmeriGas’ Senior Notes, during Fiscal 2017 and 2016, the Partnership recognized pre-tax losses which are reflected in “Loss on extinguishments of debt” on the Consolidated Statements of Income and comprise the following:

	2017	2016
Early redemption premiums	\$51.3	\$39.6
Write-off of unamortized debt issuance costs	8.4	9.3
Loss on extinguishments of debt	\$59.7	\$48.9

UGI International. In April 2015, France SAS entered into a new five-year Senior Facilities Agreement with a consortium of banks consisting of a €600 variable-rate term loan and a €60 revolving credit facility (“2015 Senior Facilities Agreement”) in anticipation of its then-pending acquisition of Totalgaz, which was consummated in May 2015 (see Note 4). On May 29, 2015, France SAS borrowed €600 (\$659.6) under the 2015 Senior Facilities Agreement. The term loan proceeds were used (1) to fund a portion of the Totalgaz Acquisition, including related fees and expenses; (2) to make a capital contribution from France SAS to its wholly owned subsidiary, AGZ Holding, to prepay €342 principal amount, plus accrued interest, outstanding under Antargaz’ 2011 Senior Facilities Agreement due March 2016 (the “2011 Senior Facilities Agreement”); (3) to settle Antargaz’ existing pay-fixed, receive-variable interest rate swaps associated with the 2011 Senior Facilities Agreement; and (4) for general corporate purposes. As a result of prepaying the term loan outstanding under the 2011 Senior Facilities Agreement and concurrently settling the associated pay-fixed, receive-variable interest rate swaps, we recorded a pre-tax loss of \$10.3 comprising a \$9.0 loss on interest rate swaps and the write-off of \$1.3 of debt issuance costs. These amounts are included in “Interest expense” on the Fiscal 2015 Consolidated Statement of Income.

In October 2015, Flaga entered into a €100.8 Credit Facility Agreement (“Flaga Credit Facility Agreement”) with a bank. The Flaga Credit Facility Agreement includes a €25 multi-currency revolving credit facility, a €5 overdraft facility, a €25 guarantee facility and a €45.8 term loan facility. Concurrent with entering into the Flaga Credit Facility Agreement, Flaga terminated its then-existing €46 multi-currency working capital facility.

In October 2015, borrowings under the Flaga Credit Facility Agreement’s €45.8 term loan were used to refinance a €19.1 (\$21.4) term loan and a €26.7 (\$29.8) term loan. Because the cash flows associated with the refinancing of the then-existing term loans were with the same bank, such cash flows have been reflected “net” on the Consolidated Statement of Cash Flows.

In September 2015, Flaga terminated its then-existing \$52 U.S. dollar-denominated variable-rate term loan due September 2016 and concurrently entered into a \$59.1 U.S. dollar-denominated variable-rate term loan with the same bank. The \$59.1 term loan matures in September 2018. Because the cash flows from the termination of the \$52 term loan and the concurrent issuance of the \$59.1 term loan were with the same bank, such cash flows have been reflected “net” in the financing activities section of the Fiscal 2015 Consolidated Statement of Cash Flows.

UGI Utilities. In April 2016, UGI Utilities entered into a Note Purchase Agreement (the “2016 Note Purchase Agreement”) with a consortium of lenders. Pursuant to the 2016 Note Purchase Agreement, UGI Utilities issued \$100 aggregate principal amount of 2.95% Senior Notes due June 2026 and \$200 aggregate principal amount of 4.12% Senior Notes due September 2046 in June 2016 and September 2016, respectively. In October 2016, UGI Utilities issued \$100 aggregate principal amount of 4.12% Senior Notes due October 2046. The net proceeds of the issuance of these senior notes were used (1) to repay UGI Utilities’ maturing 5.75% Senior Notes, 7.37% Medium-term Notes and

5.64% Medium-term Notes; (2) to provide additional financing for UGI Utilities' infrastructure replacement and betterment capital program and the information technology initiatives; and (3) for general corporate purposes. The UGI Utilities Senior Notes are unsecured and rank equally with UGI Utilities' existing outstanding senior debt.

F-23

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

On October 31, 2017, UGI Utilities entered into a \$125 unsecured term loan (the “Utilities Term Loan”) with a group of banks which initially matures on October 30, 2018. Such maturity will be automatically extended to October 30, 2022 once UGI Utilities delivers to the agent a copy of the securities certificate registered with the PUC authorizing UGI Utilities’ incurring indebtedness with such maturity date. Proceeds from the Utilities Term Loan were used to repay revolving credit balances and for general corporate purposes. The outstanding principal amount of the Utilities Term Loan is payable in equal quarterly installments of \$1.6 with the balance of the principal being due and payable in full on the maturity date. 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 UGI Utilities to not exceed a ratio of Consolidated Debt to Consolidated Total Capital, as defined.

F-24

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

## Long-term Debt

Long-term debt comprises the following at September 30:

	2017	2016
AmeriGas Propane:		
AmeriGas Partners Senior Notes:		
5.50% due May 2025	\$700.0	\$—
5.875% due August 2026	675.0	675.0
5.625% due May 2024	675.0	675.0
5.75% due May 2027	525.0	—
7.00%, due May 2022	—	980.8
HOLP Senior Secured Notes, including unamortized premium of \$0.4 and \$0.7, respectively (a)	11.3	15.2
Other	17.3	14.2
Unamortized debt issuance costs	(31.3)	(26.6)
Total AmeriGas Propane	2,572.3	2,333.6
UGI International:		
France SAS Senior Facilities term loan, due through April 2020 (b)	708.9	674.4
Flaga variable-rate term loan, due October 2020 (c)	54.1	51.4
Flaga U.S. dollar variable-rate term loan, due September 2018 (d)	59.1	59.1
Other	21.3	1.4
Unamortized debt issuance costs	(4.6)	(6.7)
Total UGI International	838.8	779.6
UGI Utilities:		
Senior Notes:		
4.12%, due September 2046	200.0	200.0
4.98%, due March 2044	175.0	175.0
4.12%, due October 2046	100.0	—
6.21%, due September 2036	100.0	100.0
2.95%, due June 2026	100.0	100.0
Medium-Term Notes:		
6.13%, due October 2034	20.0	20.0
6.50%, due August 2033	20.0	20.0
5.67%, due January 2018	20.0	20.0
7.25%, due November 2017	20.0	20.0
6.17%, due June 2017	—	20.0
Unamortized debt issuance costs	(3.9)	(3.5)
Total UGI Utilities	751.1	671.5
Other	9.9	10.8
Total long-term debt	4,172.1	3,795.5
Less: current maturities	(177.5)	(29.5)
Total long-term debt due after one year	\$3,994.6	\$3,766.0

At September 30, 2017 and 2016, the effective interest rate on the HOLP Senior Secured Notes was 6.75%. These (a) notes are collateralized by AmeriGas OLP's receivables, contracts, equipment, inventory, general intangibles and cash.

(b) Borrowings bear interest at rates per annum comprising the aggregate of the applicable margin and the associated euribor rate, which euribor rate has a floor of 0.0%. The margin on term loan borrowings (which ranges from



1.60% to 2.70%) is dependent upon the ratio of France SAS' consolidated total net debt to EBITDA, each as defined in the 2015 Senior Facilities Agreement. At September 30, 2017 and 2016, such margin was 1.90%. France SAS has entered into pay-fixed, receive-variable interest rate swaps through April 30, 2019, to fix the underlying euribor rate on term loan borrowings at 0.18%. At

F-25

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

September 30, 2017 and 2016, the effective interest rate on the term loan was approximately 2.10%. Principal amounts outstanding under the term loan are due as follows: €60 due April 2018; €60 due April 2019; and €480 due April 2020.

Borrowings bear interest at three-month euribor rates, plus a margin and other fees. The margin and other fees range from 1.20% to 2.60% and are based upon certain consolidated equity, return on assets and debt to EBITDA (c) ratios, as defined, as well as fees defined by the local jurisdiction. Flaga has entered into pay-fixed, receive-variable interest rate swaps that generally fix the underlying market rate at 0.23%, effective October 2016. The effective interest rate on this term loan at September 30, 2017 and 2016, was 1.80% and 2.11%, respectively. Borrowings bear interest at a one-month LIBOR rate plus a margin of 1.125%. Flaga has effectively fixed the (d) LIBOR component of the interest rate, and has effectively fixed the U.S. dollar value of the interest and principal payments by entering into a cross-currency swap arrangement with a bank. At September 30, 2017 and 2016, the effective interest rate on this term loan was 0.87%.

Scheduled principal repayments of long-term debt due in fiscal years 2018 to 2022 follows:

	2018	2019	2020	2021	2022
AmeriGas Propane	\$8.6	\$8.2	\$7.5	\$3.2	\$1.2
UGI International	130.3	71.5	567.1	54.1	20.4
UGI Utilities	40.0	—	—	—	—
Other	0.7	0.8	0.8	0.9	0.9
Total	\$179.6	\$80.5	\$575.4	\$58.2	\$22.5

## Credit Facilities and Short-term Borrowings

Information about the Company's principal credit agreements (excluding Energy Services, LLC's Receivables Facility which is discussed below) as of September 30, 2017 and 2016, is presented in the following table. Borrowings outstanding under these agreements are classified as "Short-term borrowings" on the Consolidated Balance Sheets.

	Expiration Date	Total Capacity	Borrowings Outstanding	Letters of Credit and Guarantees Outstanding	Available Borrowing Capacity	Weighted Average Interest Rate - End of Year
September 30, 2017						
AmeriGas OLP (a)	June 2019	\$ 525.0	\$ 140.0	\$ 67.2	\$ 317.8	3.74 %
France SAS (b)	April 2020	€ 60.0	—	—	€ 60.0	N.A.
Flaga (c)	October 2020	€ 55.0	—	€ 6.5	€ 48.5	N.A.
Energy Services, LLC (d)	March 2021	\$ 240.0	—	—	\$ 240.0	N.A.
UGI Utilities (e)	March 2020	\$ 300.0	\$ 170.0	\$ 2.0	\$ 128.0	2.11 %
September 30, 2016						
AmeriGas OLP (a)	June 2019	\$ 525.0	\$ 153.2	\$ 67.2	\$ 304.6	2.79 %
France SAS (b)	April 2020	€ 60.0	—	—	€ 60.0	N.A.
Flaga (c)	October 2020	€ 55.0	—	€ 9.6	€ 45.4	N.A.
Energy Services, LLC (d)	March 2021	\$ 240.0	\$ —	—	\$ 240.0	N.A.
UGI Utilities (e)	March 2020	\$ 300.0	\$ 112.5	\$ 2.0	\$ 185.5	1.42 %

(a) The AmeriGas OLP Credit Agreement includes a \$125 sublimit for letters of credit and permits AmeriGas OLP 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, or one-, two-, three-, or six-month Eurodollar Rate, as defined, plus a margin. The applicable margin on base rate borrowings ranges from 0.50% to 1.50%; the applicable margin on Eurodollar Rate borrowings ranges from 1.50% to 2.50%; and the facility fee ranges from 0.30% to 0.45%. The aforementioned margins and facility fees are dependent upon AmeriGas Partners' ratio of debt to EBITDA, as defined.

Borrowings under the 2015 Senior Facilities Agreement revolving credit facility bear interest at market rates (one-, (b)two-, three-, or six-month euribor) plus a margin. The margin on credit facility borrowings ranges from 1.45% to 2.55% based upon France SAS's ratio of consolidated total net debt to EBITDA, as defined.

Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

The Flaga Credit Facility Agreement includes a €25 multi-currency revolving credit facility, a €5 overdraft facility and a €25 guarantee facility. Revolving credit facility borrowings bear interest at market rates (generally one, three or six-month euribor rates) plus margins. The margins on revolving facility borrowings, which range from 1.45% to 3.65%, are based upon the actual currency borrowed and certain consolidated equity, return on assets and debt to EBITDA ratios, each as defined. Facility fees on the unused amount of the revolving credit facility are 30% of the lowest applicable margin. Guarantees outstanding reduce the available capacity on the €25 guarantee facility.

(c) The Energy Services, LLC Credit Agreement (“Energy Services Credit Agreement”) includes a \$50 sublimit for letters of credit and can be used for general corporate purposes of Energy Services, LLC and its subsidiaries.

Energy Services, LLC may not pay a dividend unless, after giving effect to such dividend payment, the ratio of Consolidated Total Indebtedness to EBITDA, each as defined, does not exceed 3.00 to 1.00. Borrowings bear interest at either (i) the Alternate Base Rate plus a margin or (ii) a rate derived from LIBOR (“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) Adjusted LIBOR plus 1.00%. The margin on such borrowings is currently 2.25%. The Energy Services Credit Agreement is guaranteed by certain subsidiaries of Energy Services, LLC.

(d) The UGI Utilities Credit Agreement includes a \$100 sublimit for letters of credit. Borrowings bear interest at prevailing market interest rates, including LIBOR and the banks’ prime rate, plus a margin. The margin on such borrowings ranges from 0.0% to 1.75% and is based upon the credit ratings of certain indebtedness of UGI Utilities.

Accounts Receivable Securitization Facility. Energy Services, LLC has a receivables purchase 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 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 the Company’s balance sheet and the Company reflects a liability equal to the amount advanced by the bank. The Company records interest expense on amounts owed to the bank. Energy Services continues to service, administer and collect trade receivables on behalf of the bank, as applicable. Losses on sales of receivables to the bank during Fiscal 2017, Fiscal 2016 and Fiscal 2015, which amounts are included in “Interest expense” on the Consolidated Statements of Income, were not material.

Information regarding the amounts of trade receivables transferred to ESFC and the amounts sold to the bank during Fiscal 2017, Fiscal 2016 and Fiscal 2015, as well as the balance of ESFC trade receivables at September 30, 2017, 2016 and 2015 follows:

	2017	2016	2015
Trade receivables transferred to ESFC during the year	\$1,017.3	\$756.4	\$1,037.8
ESFC trade receivables sold to the bank during the year	243.0	204.0	306.5
ESFC trade receivables - end of year (a)	44.8	35.7	44.1

(a)

At September 30, 2017 and 2016, the amounts of ESFC trade receivables sold to the bank were \$39.0 and \$25.5, respectively, and are reflected as “Short-term borrowings” on the Consolidated Balance Sheets.

#### Restrictive Covenants

Our long-term debt and credit facility agreements generally contain customary covenants and default provisions which may include, among other things, restrictions on the incurrence of additional indebtedness and also restrict liens, guarantees, investments, loans and advances, payments, mergers, consolidations, asset transfers, transactions with affiliates, sales of assets, acquisitions and other transactions.

The AmeriGas Propane Credit Agreement requires that AmeriGas OLP and AmeriGas Partners maintain ratios of total indebtedness to EBITDA, as defined, below certain thresholds. In addition, the Partnership must maintain a minimum ratio of EBITDA to

F-27

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

interest expense, as defined and as calculated on a rolling four-quarter basis. Generally, as long as no default exists or would result therefrom, AmeriGas OLP is permitted to make cash distributions not more frequently than quarterly in an amount not to exceed available cash, as defined, for the immediately preceding calendar quarter.

Under the AmeriGas Partners Senior Notes Indentures, AmeriGas Partners is generally permitted to make cash distributions equal to available cash, as defined, as of the end of the immediately preceding quarter, if certain conditions are met. At September 30, 2017, these restrictions did not limit the amount of Available Cash. See Note 14 for the definition of Available Cash included in the Fourth Amended and Restated Agreement of Limited Partnership of AmeriGas Partners, L.P., as amended (“Partnership Agreement”).

The HOLP Senior Secured Notes financial covenants require AmeriGas OLP to maintain a ratio of Consolidated Funded Indebtedness to Consolidated EBITDA (as defined) below certain thresholds and to maintain a minimum ratio of Consolidated EBITDA to Consolidated Interest Expense (as defined).

The 2015 Senior Facilities Agreement requires France SAS and its consolidated subsidiaries to maintain a ratio of total net debt to EBITDA, each as defined in the 2015 Senior Facilities Agreement, that shall not exceed 3.50 to 1.00 as determined semiannually. France SAS will generally be permitted to make restricted payments, such as dividends, if no event of default exists or would exist upon payment of such dividend.

Borrowings under the Flaga Credit Facility Agreement are guaranteed by UGI. The Flaga U.S. dollar term loan and associated interest rate and cross-currency swap agreements are guaranteed by UGI. In addition, under certain conditions regarding changes in certain financial ratios of UGI, the lending banks may accelerate repayment of the debt.

The UGI Utilities Credit Agreement requires UGI Utilities not to exceed a ratio of Consolidated Debt to Consolidated Total Capital, as defined, of 0.65 to 1.00. Certain of UGI Utilities’ Senior Notes contain financial covenants including a requirement that UGI Utilities not exceed a ratio of Consolidated Debt to Consolidated Total Capital, as defined, of 0.65 to 1.00.

The Energy Services Credit Agreement requires that Energy Services, LLC and subsidiaries not exceed a ratio of total indebtedness to EBITDA, as defined, of 3.50 to 1.00, and maintain a minimum ratio of EBITDA to interest expense, as defined, of 3.50 to 1.00.

## Restricted Net Assets

At September 30, 2017, the amount of net assets of UGI’s consolidated subsidiaries that were restricted from transfer to UGI under debt agreements, subsidiary partnership agreements and regulatory requirements under foreign laws totaled approximately \$1,500.

## Note 6 — Income Taxes

Income before income taxes comprises the following:

	2017	2016	2015
Domestic	\$527.3	\$518.9	\$552.3
Foreign	174.1	191.1	39.5
Total income before income taxes	\$701.4	\$710.0	\$591.8

Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

The provisions for income taxes consist of the following:

	2017	2016	2015
Current expense (benefit):			
Federal	\$(2.7 )	\$44.2	\$97.1
State	14.0	20.9	32.2
Foreign	56.2	78.7	36.0
Investment tax credit	—	—	(1.2 )
Total current expense	67.5	143.8	164.1
Deferred expense (benefit):			
Federal	125.8	81.2	28.1
State	16.4	1.3	2.9
Foreign	(31.8 )	(4.8 )	(17.0 )
Investment tax credit amortization	(0.3 )	(0.3 )	(0.3 )
Total deferred expense	110.1	77.4	13.7
Total income tax expense	\$177.6	\$221.2	\$177.8

Federal income taxes for Fiscal 2017, Fiscal 2016 and Fiscal 2015 are net of foreign tax credits of \$40.9, \$25.6 and \$63.0, respectively.

A reconciliation from the U.S. federal statutory tax rate to our effective tax rate is as follows:

	2017	2016	2015
U.S. federal statutory tax rate	35.0 %	35.0 %	35.0 %
Difference in tax rate due to:			
Noncontrolling interests not subject to tax	(4.3 )	(6.2 )	(7.9 )
State income taxes, net of federal benefit	2.9	3.0	3.3
Valuation allowance adjustments	(1.1 )	(0.9 )	0.8
Effects of foreign operations	(1.1 )	0.6	0.2
Deferred tax effects of French tax rate change	(4.1 )	—	—
Excess tax benefits on share-based payments	(1.3 )	—	—
Other, net	(0.7 )	(0.3 )	(1.4 )
Effective tax rate	25.3 %	31.2 %	30.0 %

Earnings of the Company's foreign subsidiaries are generally subject to U.S. taxation upon repatriation to the U.S. and the Company's tax provisions reflect the related incremental U.S. tax except for certain foreign subsidiaries whose unremitted earnings are considered to be indefinitely reinvested. At September 30, 2017, unremitted earnings of foreign subsidiaries of approximately \$119.7 were deemed to be indefinitely reinvested. No deferred tax liability has been recognized with regard to the remittance of such earnings. Because of the availability of U.S. foreign tax credits, it is likely no U.S. tax would be due if such earnings were repatriated.

Pennsylvania utility ratemaking practice permits the flow through to ratepayers of state tax benefits resulting from accelerated tax depreciation. For Fiscal 2017, Fiscal 2016 and Fiscal 2015, the beneficial effects of state tax flow through of accelerated depreciation reduced income tax expense by \$2.5, \$1.3 and \$1.5, respectively.

Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

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

	2017	2016
Excess book basis over tax basis of property, plant and equipment	\$975.8	\$873.9
Investment in AmeriGas Partners	326.8	323.2
Intangible assets and goodwill	98.2	87.1
Utility regulatory assets	132.2	148.3
Other	11.7	11.9
Gross deferred tax liabilities	1,544.7	1,444.4
Pension plan liabilities	(57.7 )	(79.7 )
Employee-related benefits	(65.4 )	(63.1 )
Operating loss carryforwards	(30.9 )	(31.5 )
Foreign tax credit carryforwards	(106.1 )	(105.1 )
Utility regulatory liabilities	(9.3 )	(13.9 )
Derivative instruments	(1.7 )	(14.7 )
Utility environmental liabilities	(22.2 )	(22.8 )
Other	(27.8 )	(28.3 )
Gross deferred tax assets	(321.1 )	(359.1 )
Deferred tax assets valuation allowance	107.1	114.3
Net deferred tax liabilities	\$1,330.7	\$1,199.6

In December 2016, the French Parliament approved the Finance Bill for 2017 and amended the Finance Bill for 2016 (collectively the "Finance Bills"). The Finance Bills, among other things, will reduce the French corporate income tax rate from the current 34.43% to 28.92%, effective for fiscal years starting after January 1, 2020 (Fiscal 2021). As a result of the future income tax rate reduction, during Fiscal 2017 the Company reduced its net deferred income tax liabilities and recognized a deferred tax benefit of \$29.0.

At September 30, 2017, foreign net operating loss carryforwards principally relating to Flaga, UGI International Holdings BV and certain subsidiaries of France SAS totaled \$24.5, \$2.5 and \$22.6, respectively, with no expiration dates. We have state net operating loss carryforwards primarily relating to certain subsidiaries which approximate \$187.9 and expire through 2037. We also have operating loss carryforwards of \$19.7 for certain operations of AmeriGas Propane that expire through 2037. At September 30, 2017, deferred tax assets relating to operating loss carryforwards include \$5.6 for Flaga, \$7.8 for certain subsidiaries of France SAS, \$0.7 for UGI International Holdings BV, \$6.8 for AmeriGas Propane and \$10.0 for certain other subsidiaries.

The valuation allowance for all deferred tax assets decreased by \$7.2 in Fiscal 2017 due to the reversal of \$7.6 of valuation allowances associated with future utilization of foreign tax credits and a decrease in foreign operating loss carryforwards of \$1.5, partially offset by an increase in foreign tax credits of \$1.1, and an increase in state capital loss carryforwards of \$0.8. A valuation allowance of \$0.2 remains for deferred tax assets related to other state net operating loss carryforwards and other state deferred tax assets of certain subsidiaries because, on a state reportable basis, it is more likely than not that these assets will expire unused. A valuation allowance of \$7.5 also exists for deferred tax assets related to certain subsidiaries of France SAS, and certain subsidiaries of Flaga and UGI International Holdings BV.

In Fiscal 2017, the Company reversed \$7.6 in valuation allowances associated with foreign tax credit carryforwards whose utilization before expiration had previously not met a more-likely-than-not threshold. In Fiscal 2016, the Company reversed valuation allowances associated with certain state tax net operating loss carryforwards of approximately \$5.5 as a result of certain tax planning strategies that were related to legal entity classification. Operating activities and tax deductions related to the exercise of non-qualified stock options contributed to the state net operating losses disclosed above. Prior to the adoption of ASU 2016-09, we would first recognize the utilization of



state net operating losses from operations (which exclude the impact of tax deductions for exercises of non-qualified stock options) to reduce income tax expense. Then, to the extent state net operating loss carryforwards, if realized, related to non-qualified stock option deductions, the resulting benefits were credited to UGI Corporation stockholders'

F-30

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

equity. The Fiscal 2016 table of deferred tax assets and liabilities does not include \$7.7 of deferred tax assets and a corresponding valuation allowance for unrealized state tax benefits for share-based compensation deductions. We have foreign tax credit carryforwards of approximately \$106.1 expiring through 2027 resulting from the actual and planned repatriation of France SAS's accumulated earnings since acquisition which are includable in U.S. taxable income. Prior to Fiscal 2017, we expected that these credits would expire unused and a valuation allowance had been provided for the entire foreign tax credit carryforward amount. The Company continuously monitors the potential utilization of these credits and performs the appropriate weighing of positive and negative evidence in reaching a conclusion of whether utilization reaches a level of more likely than not. In Fiscal 2017, the Company concluded it was more likely than not that \$98.5 of the credits will expire before utilization and therefore reversed \$7.6 of the prior year valuation allowance against these credits. The amount of the deferred tax asset considered realizable could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased.

We conduct business and file tax returns in the U.S., numerous states, local jurisdictions and in France and certain other European countries. Our U.S. federal income tax returns are settled through the 2013 tax year, our French tax returns are settled through the 2013 tax year, our Austrian tax returns are settled through 2014 and our other European tax returns are effectively settled for various years from 2008 to 2015. State and other income tax returns in the U.S. are generally subject to examination for a period of three to five years after the filing of the respective returns. As of September 30, 2017, we have unrecognized income tax benefits totaling \$12.2 including related accrued interest of \$0.5. If these unrecognized tax benefits were subsequently recognized, \$8.1 would be recorded as a benefit to income taxes on the Consolidated Statement of Income and, therefore, would impact the reported effective tax rate. Generally, a net reduction in unrecognized tax benefits could occur because of the expiration of the statute of limitations in certain jurisdictions or as a result of settlements with tax authorities. There is no material change expected in unrecognized tax benefits and related interest in the next twelve months.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

	2017	2016	2015
Unrecognized tax benefits — beginning of year	\$7.2	\$3.2	\$2.4
Additions for tax positions of the current year	1.9	2.2	0.9
Additions for tax positions taken in prior years	4.6	2.3	0.5
Settlements with tax authorities/statute lapses	(1.5 )	(0.5 )	(0.6 )
Unrecognized tax benefits — end of year	\$12.2	\$7.2	\$3.2

## Note 7 — Employee Retirement Plans

## 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"). 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 nearly all 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 following table provides a reconciliation of the projected benefit obligations ("PBOs") of the U.S. Pension Plan and the UGI International pension plans, the accumulated benefit obligations ("ABOs") of our other postretirement benefit plans, plan assets, and the funded status of pension and other postretirement plans as of September 30, 2017 and 2016. ABO is the present value of benefits earned to date with benefits based upon current compensation levels. PBO is ABO increased to reflect estimated future compensation.



Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Change in benefit obligations:				
Benefit obligations — beginning of year	\$707.7	\$614.7	\$30.9	\$25.4
Service cost	11.9	10.1	1.0	0.7
Interest cost	25.0	26.8	0.8	0.9
Actuarial (gain) loss	(19.6 )	83.3	(4.8 )	6.6
Plan amendments	1.2	—	—	(1.5 )
Curtailment	(3.6 )	(1.4 )	(0.4 )	(0.3 )
Foreign currency	2.9	0.1	0.4	—
Benefits paid	(27.7 )	(25.9 )	(0.9 )	(0.9 )
Benefit obligations — end of year	\$697.8	\$707.7	\$27.0	\$30.9
Change in plan assets:				
Fair value of plan assets — beginning of year	\$493.7	\$453.8	\$13.7	\$12.5
Actual gain on plan assets	47.0	53.4	1.3	1.3
Foreign currency	1.6	0.1	—	—
Employer contributions	14.6	11.4	0.6	0.6
Benefits paid	(27.7 )	(25.0 )	(0.8 )	(0.7 )
Fair value of plan assets — end of year	\$529.2	\$493.7	\$14.8	\$13.7
Funded status of the plans — end of year	\$(168.6)	\$(214.0)	\$(12.2)	\$(17.2)
Assets (liabilities) recorded in the balance sheet:				
Assets in excess of liabilities — included in other noncurrent assets	\$—	\$—	\$5.4	\$4.1
Unfunded liabilities — included in other noncurrent liabilities	(168.6 )	(214.0 )	(17.6 )	(21.3 )
Net amount recognized	\$(168.6)	\$(214.0)	\$(12.2)	\$(17.2)
Amounts recorded in UGI Corporation stockholders' equity (pre-tax):				
Prior service cost (credit)	\$0.7	\$(0.6 )	\$(1.5 )	\$(1.5 )
Net actuarial loss (gain)	21.3	31.4	(0.6 )	3.8
Total	\$22.0	\$30.8	\$(2.1 )	\$2.3
Amounts recorded in regulatory assets and liabilities (pre-tax):				
Prior service cost (credit)	\$1.0	\$1.2	\$(1.6 )	\$(2.2 )
Net actuarial loss	139.5	181.0	1.2	2.4
Total	\$140.5	\$182.2	\$(0.4 )	\$0.2

In Fiscal 2018, we estimate that we will amortize approximately \$13.5 of net actuarial losses, primarily associated with the U.S. Pension Plan, and \$0.5 of net prior service credits from UGI stockholders' equity and regulatory assets into retiree benefit cost.

Actuarial assumptions for our U.S. plans are described below. Assumptions for the UGI International plans are based upon market conditions in France, Belgium and the Netherlands. The discount rate assumption was determined by selecting a hypothetical portfolio of high quality corporate bonds appropriate to provide for the projected benefit payments of the plans. The discount rate was then developed as the single rate that equates the market value of the bonds purchased to the discounted value of the plans' benefit payments. The expected rate of return on assets assumption is based on current and expected asset allocations as well as historical and expected returns on various categories of plan assets (as further described below).



Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

	Pension Plan			Other Postretirement Benefits		
	2017	2016	2015	2017	2016	2015
Weighted-average assumptions:						
Discount rate – benefit obligations	4.00%	3.80%	4.60%	4.00%	3.80%	4.70%
Discount rate – benefit cost	3.80%	4.60%	4.60%	3.80%	4.70%	4.60%
Expected return on plan assets	7.50%	7.55%	7.75%	5.00%	5.00%	5.00%
Rate of increase in salary levels	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%

The ABOs for the U.S. Pension Plan were \$605.2 and \$601.3 as of September 30, 2017 and 2016, respectively.

Net periodic pension expense and other postretirement benefit cost include the following components:

	Pension Benefits			Other Postretirement Benefits		
	2017	2016	2015	2017	2016	2015
Service cost	\$11.9	\$10.1	\$10.0	\$1.0	\$0.7	\$0.7
Interest cost	25.0	26.8	25.5	0.8	0.9	0.8
Expected return on assets	(33.6)	(32.4)	(32.2)	(0.7)	(0.6)	(0.6)
Curtailment gain	(1.4)	(1.2)	(0.8)	—	—	—
Amortization of:						
Prior service cost (benefit)	0.3	0.3	0.3	(0.6)	(0.6)	(0.5)
Actuarial loss	16.7	10.9	10.0	0.3	—	0.1
Net benefit cost	18.9	14.5	12.8	0.8	0.4	0.5
Change in associated regulatory liabilities	—	—	—	(0.5)	1.0	3.7
Net benefit cost after change in regulatory liabilities	\$18.9	\$14.5	\$12.8	\$0.3	\$1.4	\$4.2

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 and smallcap common stocks (prior to their liquidation during Fiscal 2017). 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. From time to time we may, at our discretion, contribute additional amounts. During Fiscal 2017, Fiscal 2016 and Fiscal 2015, we made cash contributions to the U.S. Pension Plan of \$11.4, \$9.9 and \$11.1 respectively. The minimum required contributions in Fiscal 2018 are not expected to be material.

UGI Utilities has established a Voluntary Employees' Beneficiary Association ("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. The difference between such amount and amounts included in UGI Gas' and Electric Utility's rates, if any, is deferred for future recovery from, or refund to, ratepayers. Any required contributions to the VEBA during Fiscal 2018 are not expected to be material.

Expected payments for pension and other postretirement welfare benefits are as follows:

	Pension Benefits	Other Postretirement Benefits
Fiscal 2018	\$ 29.5	\$ 1.1
Fiscal 2019	\$ 29.9	\$ 1.1
Fiscal 2020	\$ 31.5	\$ 1.1
Fiscal 2021	\$ 39.0	\$ 1.1
Fiscal 2022	\$ 39.6	\$ 1.0

Fiscal 2023 - 2027 \$ 196.2 \$ 4.9

F-33

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

The assumed domestic health care cost trend rates at September 30 are as follows:

	2017	2016
Health care cost trend rate assumed for next year	7.00 %	7.25 %
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	5.0 %	5.0 %
Fiscal year that the rate reaches the ultimate trend rate	2026	2026

A one percentage point change in the assumed health care cost trend rate would not have a material impact on the Fiscal 2017 other postretirement benefit cost or September 30, 2017, other postretirement benefit ABO.

We also sponsor unfunded and non-qualified supplemental executive defined benefit retirement plans (“Supplemental Defined Benefit Plans”). At September 30, 2017 and 2016, the PBOs of these plans, including obligations for amounts held in grantor trusts, were \$50.7 and \$47.4, respectively. We recorded pre-tax costs for these plans of \$3.1 in Fiscal 2017, \$2.6 in Fiscal 2016 and \$2.3 in Fiscal 2015. These costs are not included in the tables above. Amounts recorded in UGI’s stockholders’ equity for these plans include pre-tax losses of \$11.3 and \$13.0 at September 30, 2017 and 2016, respectively, principally representing unrecognized actuarial losses. We expect to amortize approximately \$1.1 of such pre-tax actuarial losses into retiree benefit cost in Fiscal 2018. During Fiscal 2017 and 2016 the Company made payments with respect to the Supplemental Defined Benefit Plans totaling \$1.3 and \$0.4, respectively. There were no such payments made in Fiscal 2015. The total fair value of the grantor trust investment assets associated with the Supplemental Defined Benefit Plans, which are included in “Other assets” on the Consolidated Balance Sheets, totaled \$31.8 and \$28.4 at September 30, 2017 and 2016, respectively.

U.S. Pension Plan and VEBA Assets

The assets of the U.S. Pension Plan and the VEBA are held in trust. The investment policies and asset allocation strategies for the assets in these trusts are determined by an investment committee comprising officers of UGI and UGI Utilities. The overall investment objective of the U.S. Pension Plan and the VEBA is to achieve the best long-term rates of return within prudent and reasonable levels of risk. To achieve the stated objective, investments are made principally in publicly traded, diversified equity and fixed income mutual funds and, to a much lesser extent, smallcap common stocks (prior to their liquidation in Fiscal 2017) and UGI Common Stock. Assets associated with the UGI International plans are excluded from the disclosures in the tables below as such assets are not material.



Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

The targets, target ranges and actual allocations for the U.S. Pension Plan and VEBA trust assets at September 30 are as follows:

## U.S. Pension Plan

	Actual		Target		Permitted Range
	2017	2016	Asset Allocation		
Equity investments:					
Domestic	55.2 %	54.1 %	52.5 %		40.0% – 65.0%
International	12.4 %	10.2 %	12.5 %		7.5% – 17.5%
Total	67.6 %	64.3 %	65.0 %		60.0% – 70.0%
Fixed income funds & cash equivalents	32.4 %	35.7 %	35.0 %		30.0% – 40.0%
Total	100.0 %	100.0 %	100.0 %		

## VEBA

	Actual		Target		Permitted Range
	2017	2016	Asset Allocation		
Domestic equity investments	63.1 %	69.9 %	65.0 %		60.0% – 70.0%
Fixed income funds & cash equivalents	36.9 %	30.1 %	35.0 %		30.0% – 40.0%
Total	100.0 %	100.0 %	100.0 %		

Domestic equity investments include investments in large-cap mutual funds indexed to the S&P 500, actively managed mid- and small-cap mutual funds, and a separately managed account comprising small-cap common stocks (prior to their liquidation in Fiscal 2017). Investments in international equity mutual funds seek to track performance of companies primarily in developed markets. The fixed income investments comprise investments designed to match the performance and duration of the Barclays U.S. Aggregate Index. According to statute, the aggregate holdings of all qualifying employer securities may not exceed 10% of the fair value of trust assets at the time of purchase. UGI Common Stock represented 7.7% and 8.0% of U.S. Pension Plan assets at September 30, 2017 and 2016, respectively.

Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

The fair values of U.S. Pension Plan and VEBA trust assets are derived from quoted market prices as substantially all of these instruments have active markets. Cash equivalents are valued at the fund's unit net asset value as reported by the trustee. The fair values of the U.S. Pension Plan and VEBA trust assets by asset class and level within the fair value hierarchy, as described in Note 2, as of September 30, 2017 and 2016 are as follows:

	U.S. Pension Plan				Total
	Level 1	Level 2	Level 3	Other <sup>(a)</sup>	
September 30, 2017:					
Domestic equity investments:					
S&P 500 Index equity mutual funds	\$ 171.6	\$ —	\$ —	\$ —	\$ 171.6
Small and midcap equity mutual funds	65.2	—	—	—	65.2
UGI Corporation Common Stock	38.1	—	—	—	38.1
Total domestic equity investments	274.9	—	—	—	274.9
International index equity mutual funds	61.6	—	—	—	61.6
Fixed income investments:					
Bond index mutual funds	156.2	—	—	—	156.2
Cash equivalents	—	—	—	5.3	5.3
Total fixed income investments	156.2	—	—	5.3	161.5
Total	\$ 492.7	\$ —	\$ —	\$ 5.3	\$ 498.0
September 30, 2016:					
Domestic equity investments:					
S&P 500 Index equity mutual funds	\$ 158.9	\$ —	\$ —	\$ —	\$ 158.9
Small and midcap equity mutual funds	43.2	—	—	—	43.2
Smallcap common stocks	11.4	—	—	—	11.4
UGI Corporation Common Stock	37.0	—	—	—	37.0
Total domestic equity investments	250.5	—	—	—	250.5
International index equity mutual funds	47.3	—	—	—	47.3
Fixed income investments:					
Bond index mutual funds	147.8	—	—	—	147.8
Cash equivalents	—	—	—	17.8	17.8
Total fixed income investments	147.8	—	—	17.8	165.6
Total	\$ 445.6	\$ —	\$ —	\$ 17.8	\$ 463.4

F-36

Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

	VEBA				Total
	Level 1	Level 2	Level 3	Other (a)	
September 30, 2017:					
S&P 500 Index equity mutual fund	\$9.3	\$ —	—	—	\$9.3
Bond index mutual fund	5.1	—	—	—	5.1
Cash equivalents	—	—	—	0.4	0.4
Total	\$14.4	\$ —	—	—\$0.4	\$14.8

September 30, 2016:

S&P 500 Index equity mutual fund	\$9.6	\$ —	—	—	\$9.6
Bond index mutual fund	4.0	—	—	—	4.0
Cash equivalents	—	—	—	0.1	0.1
Total	\$13.6	\$ —	—	—\$0.1	\$13.7

(a) Assets measured at net asset value (“NAV”) and therefore excluded from the fair value hierarchy.

The expected long-term rates of return on U.S. Pension Plan and VEBA trust assets have been developed using a best estimate of expected returns, volatilities and correlations for each asset class. The estimates are based on historical capital market performance data and future expectations provided by independent consultants. Future expectations are determined by using simulations that provide a wide range of scenarios of future market performance. The market conditions in these simulations consider the long-term relationships between equities and fixed income as well as current market conditions at the start of the simulation. The expected rate begins with a risk-free rate of return with other factors being added such as inflation, duration, credit spreads and equity risk premiums. The rates of return derived from this process are applied to our target asset allocation to develop a reasonable return assumption.

Defined Contribution Plans

We sponsor 401(k) savings plans for eligible employees of UGI and certain of UGI’s domestic subsidiaries. Generally, participants in these plans may contribute a portion of their compensation on either a before-tax basis, or on both a before-tax and after-tax basis. These plans also provide for employer matching contributions at various rates. The cost of benefits under the savings plans totaled \$15.1 in Fiscal 2017, \$14.3 in Fiscal 2016 and \$15.2 in Fiscal 2015. The Company also sponsors certain nonqualified supplemental defined contribution executive retirement plans. These plans generally provide supplemental benefits to certain executives that would otherwise be provided under retirement plans but are prohibited due to limitations imposed by the Internal Revenue Code. The Company makes payments to self-directed grantor trusts with respect to these supplemental defined contribution plans. Such payments during Fiscal 2017, Fiscal 2016 and Fiscal 2015 were not material. At September 30, 2017 and 2016, the total fair values of these grantor trust investment assets, which amounts are included in “Other assets” on the Consolidated Balance Sheets, were \$3.6 and \$4.6, respectively.

Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

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

The following regulatory assets and liabilities associated with UGI Utilities are included in our Consolidated Balance Sheets at September 30:

	2017	2016
Regulatory assets:		
Income taxes recoverable	\$ 121.4	\$ 115.7
Underfunded pension and postretirement plans	141.3	183.1
Environmental costs	61.6	59.4
Deferred fuel and power costs	7.7	0.2
Removal costs, net	31.0	27.9
Other	5.9	8.8
Total regulatory assets	\$368.9	\$395.1
Regulatory liabilities (a):		
Postretirement benefit overcollections	\$ 17.5	\$ 17.5
Deferred fuel and power refunds	10.6	22.3
State income tax benefits — distribution system repairs	8.4	15.1
Other	2.7	0.7
Total regulatory liabilities	\$49.2	\$55.6

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

Other than removal costs, UGI Utilities currently does not recover a rate of return on the regulatory assets included in the table above.

**Income taxes recoverable.** This regulatory asset is the result of recording deferred tax liabilities pertaining to temporary tax differences principally as a result of the pass through to ratepayers of the tax benefit on accelerated tax depreciation for state income tax purposes, and the flow through of accelerated tax depreciation for federal income tax purposes for certain years prior to 1981. These deferred taxes have been reduced by deferred tax assets pertaining to utility deferred investment tax credits. UGI Utilities has recorded regulatory income tax assets related to these deferred tax liabilities representing future revenues recoverable through the ratemaking process over the average remaining depreciable lives of the associated property ranging from 1 to approximately 65 years.

**Underfunded pension and other postretirement plans.** This regulatory asset represents the portion of net actuarial losses and prior service costs (credits) associated with pension and other postretirement benefits which are probable of being recovered through future rates based upon established regulatory practices. These regulatory assets are adjusted annually or more frequently under certain circumstances when the funded status of the plans is recorded in accordance with GAAP. These costs are amortized over the average remaining future service lives of plan participants.

**Environmental costs.** Environmental costs principally represent estimated probable future environmental remediation and investigation costs that UGI Gas, CPG and PNG expect to incur, primarily at MGP sites in Pennsylvania, in conjunction with remediation consent orders and agreements with the Pennsylvania Department of Environmental Protection (“DEP”). Pursuant to base rate orders, UGI Gas, PNG and CPG receive ratemaking recognition of estimated environmental investigation and remediation costs associated with their environmental sites. This ratemaking recognition balances the accumulated difference between historical costs and rate recoveries with an estimate of future costs associated with the sites. At September 30, 2017, the period over which UGI Gas, PNG and CPG expect to recover these costs will depend upon future remediation activity. For additional information on environmental costs, see Note 15.

Removal costs, net. This regulatory asset represents costs incurred, net of salvage, associated with the retirement of depreciable utility plant. As required by PUC ratemaking, removal costs include actual costs incurred associated with asset retirement obligations. Consistent with prior ratemaking treatment, UGI Utilities expects to recover these costs over five years.

F-38

---

Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

Postretirement benefit overcollections. This regulatory liability represents the difference between amounts recovered through rates by UGI Gas and Electric Utility and actual costs incurred in accordance with accounting for postretirement benefits. With respect to UGI Gas, postretirement benefit overcollections are generally being refunded to customers over a ten-year period beginning October 19, 2016, the date UGI Gas' Joint Petition pursuant to its January 19, 2016 base rate filing became effective (see "Base Rate Filings" below). With respect to Electric Utility, the excess of the amounts recovered through rates and the actual costs incurred in accordance with accounting for postretirement benefits is being deferred for future rate refund to customers.

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 on such contracts at September 30, 2017 and 2016 were \$0.1 and \$4.3, respectively.

In order to reduce volatility associated with a substantial portion of its electric transmission congestion costs, Electric Utility 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 2016, were not material.

State income tax benefits — distribution system repairs. This regulatory liability represents Pennsylvania state income tax benefits, net of federal benefit, resulting from the deduction for income tax purposes of repair and maintenance costs associated with Gas Utility or Electric Utility assets which are capitalized for regulatory and GAAP reporting. The tax benefits associated with these repair and maintenance deductions will be reflected as a reduction to income tax expense over the remaining tax lives of the related book assets.

Other. Other regulatory assets and liabilities comprise a number of deferred items including, among others, a portion of preliminary stage information technology costs, energy efficiency conservation costs and rate case expenses.

Other Regulatory Matters

Base Rate Filings. On January 19, 2017, PNG filed a rate request with the PUC to increase PNG's annual base operating revenues for residential, commercial and industrial customers by \$21.7 annually. The increased revenues would fund ongoing system improvements and operations necessary to maintain safe and reliable natural gas service. On June 30, 2017, all active parties supported the filing of a Joint Petition for Approval of Settlement of all issues with the PUC providing for an \$11.3 PNG annual base distribution rate increase. On August 31, 2017, the PUC approved the Joint Petition and the increase became effective October 20, 2017.

On January 19, 2016, UGI Utilities filed a rate request with the PUC to increase UGI Gas's annual base operating revenues for residential, commercial and industrial customers by \$58.6. The increased revenues would fund ongoing system improvements and operations necessary to maintain safe and reliable natural gas service. On June 30, 2016, a Joint Petition for Approval of Settlement of all issues providing for a \$27.0 UGI Gas annual base distribution rate increase, to be effective October 19, 2016, was filed with the PUC ("Joint Petition"). On October 14, 2016, the PUC approved the Joint Petition with a minor modification which had no effect on the \$27.0 base distribution rate increase. The increase became effective on October 19, 2016.

Distribution System Improvement Charge. On April 14, 2012, legislation became effective enabling gas and electric utilities in Pennsylvania, under certain circumstances, to recover the cost of eligible capital investment in distribution system infrastructure improvement projects between base rate cases. The charge enabled by the legislation is known as a distribution system improvement charge (“DSIC”). The primary benefit to a company from a DSIC charge is the elimination of regulatory lag, or delayed rate recognition, that occurs under traditional ratemaking relating to qualifying capital expenditures. To be eligible for a DSIC, a utility

F-39

---

Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

must have filed a general rate filing within five years of its petition seeking permission to include a DSIC in its tariff, and not exceed certain earnings tests. Absent PUC permission, the DSIC is capped at 5% of distribution charges billed to customers.

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 March 2016, PNG and CPG filed petitions, seeking approval to increase the maximum allowable DSIC from 5% to 10% of billed distribution revenues. On May 10, 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 in 2018.

On November 9, 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 will be permitted to recover revenue under the mechanism for the amount of DSIC-eligible plant placed into service in excess of the threshold amount of DSIC-eligible plant agreed upon in the settlement of its recent base rate case.

Preliminary Stage Information Technology Costs. During Fiscal 2016, we determined that certain preliminary project stage costs associated with an ongoing information technology project at UGI Utilities were probable of future recovery in rates in accordance with GAAP related to regulated entities. As a result, during Fiscal 2016, we capitalized \$5.8 of such project costs (\$5.4 of which had been expensed prior to Fiscal 2016) and recorded associated increases to utility property, plant and equipment (\$2.7) and regulatory assets (\$3.1). Subsequent to this determination, we continue to capitalize such preliminary stage project costs in accordance with GAAP related to regulated entities.

## Note 9 — Inventories

Inventories comprise the following at September 30:

	2017	2016
Non-utility LPG and natural gas	\$188.4	\$129.8
Gas Utility natural gas	39.5	29.2
Materials, supplies and other	50.7	51.3
Total inventories	\$278.6	\$210.3

At September 30, 2017, UGI Utilities was a party to five principal storage contract administrative agreements (“SCAAs”) having terms ranging from one to three years. Pursuant to 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 September 30, 2017, 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 September 30, 2017 and 2016, comprising 2.3 billion cubic feet (“bcf”) and 3.5 bcf of natural gas, was \$6.7 and \$7.6, respectively.





Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

## Note 10 — Property, Plant and Equipment

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

	2017	2016
Utilities:		
Distribution	\$2,835.3	\$2,634.2
Transmission	96.4	93.5
Work in process	112.6	103.9
General and other	241.0	167.3
Total Utilities	3,285.3	2,998.9
Non-utility:		
Land	180.1	169.9
Buildings and improvements	351.2	382.2
Transportation equipment	289.3	301.7
Equipment, primarily cylinders and tanks	3,529.4	3,421.5
Electric generation	310.0	309.4
Pipeline and related assets	454.5	235.8
Work in process	95.3	201.6
Other	354.8	324.3
Total non-utility	5,564.6	5,346.4
Total property, plant and equipment	\$8,849.9	\$8,345.3

## Note 11 — Goodwill and Intangible Assets

Changes in the carrying amount of goodwill by reportable segment are as follows:

	AmeriGas Propane	UGI International	Midstream & Marketing	UGI Utilities	Total
Balance September 30, 2015	\$1,956.0	\$ 803.7	\$ 11.6	\$ 182.1	\$2,953.4
Acquisitions	24.2	16.9	—	—	41.1
Dispositions	—	(1.6 )	—	—	(1.6 )
Purchase accounting adjustments	(1.9 )	(2.6 )	—	—	(4.5 )
Foreign currency translation	—	0.6	—	—	0.6
Balance September 30, 2016	1,978.3	817.0	11.6	182.1	2,989.0
Acquisitions	23.0	55.5	—	—	78.5
Purchase accounting adjustments	—	(1.7 )	—	—	(1.7 )
Foreign currency translation	—	41.4	—	—	41.4
Balance September 30, 2017	\$2,001.3	\$ 912.2	\$ 11.6	\$ 182.1	\$3,107.2

Intangible assets comprise the following at September 30:

	2017	2016
Customer relationships, noncompete agreements and other	\$817.8	\$773.5
Trademarks and tradenames (not subject to amortization)	134.1	131.6
Gross carrying amount	951.9	905.1
Accumulated amortization	(340.2 )	(324.8 )
Intangible assets, net	\$611.7	\$580.3



Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

Amortization expense of intangible assets was \$50.8, \$54.3 and \$52.0 for Fiscal 2017, Fiscal 2016 and Fiscal 2015, respectively. Estimated amortization expense of intangible assets during the next five fiscal years is as follows: Fiscal 2018 — \$53.5; Fiscal 2019 — \$51.6; Fiscal 2020 — \$50.2; Fiscal 2021 — \$48.3; Fiscal 2022 — \$46.6.

## Note 12 — Series Preferred Stock

UGI has 10,000,000 shares of UGI Series Preferred Stock authorized for issuance, including both series subject to and series not subject to mandatory redemption. We had no shares of UGI Series Preferred Stock outstanding at September 30, 2017 or 2016.

UGI Utilities has 2,000,000 shares of UGI Utilities Series Preferred Stock authorized for issuance, including both series subject to and series not subject to mandatory redemption. At September 30, 2017 and 2016, there were no shares of UGI Utilities Series Preferred Stock outstanding.

## Note 13 — Common Stock and Equity-Based Compensation

## Common Stock

On January 30, 2014, the Company's Board of Directors authorized the repurchase of up to 15,000,000 shares of UGI Corporation Common Stock over a four-year period. Pursuant to such authorization, during Fiscal 2017, Fiscal 2016 and Fiscal 2015, the Company purchased and placed in treasury stock 900,000, 1,250,000 and 1,000,000 shares at a total cost of \$43.3, \$47.6 and \$34.1, respectively.

UGI Common Stock share activity for Fiscal 2015, Fiscal 2016 and Fiscal 2017 follows:

	Issued	Treasury	Outstanding
Balance, September 30, 2014	173,770,641	(1,496,860)	172,273,781
Issued:			
Employee and director plans	36,350	1,155,376	1,191,726
Repurchases of common stock	—	(1,000,000)	(1,000,000)
Reacquired common stock – employee and director plans	—	(77,004)	(77,004)
Balance, September 30, 2015	173,806,991	(1,418,488)	172,388,503
Issued:			
Employee and director plans	87,150	2,355,202	2,442,352
Repurchases of common stock	—	(1,250,000)	(1,250,000)
Reacquired common stock – employee and director plans	—	(620,406)	(620,406)
Balance, September 30, 2016	173,894,141	(933,692)	172,960,449
Issued:			
Employee and director plans	93,550	1,051,704	1,145,254
Sale of reacquired common stock	—	50,000	50,000
Repurchases of common stock	—	(900,000)	(900,000)
Reacquired common stock – employee and director plans	—	(111,966)	(111,966)
Balance, September 30, 2017	173,987,691	(843,954)	173,143,737

## Equity-Based Compensation

The Company grants equity-based awards to employees and non-employee directors comprising UGI stock options, UGI Common Stock-based equity instruments and AmeriGas Partners Common Unit-based equity instruments as further described below. We recognized total pre-tax equity-based compensation expense of \$19.3 (\$11.8 after-tax), \$23.8 (\$15.4 after-tax) and \$29.2 (\$18.9 after-tax) in Fiscal 2017, Fiscal 2016 and Fiscal 2015, respectively.

UGI Equity-Based Compensation Plans and Awards. On January 24, 2013, the Company's shareholders approved the UGI Corporation 2013 Omnibus Incentive Compensation Plan (the "2013 OICP"). The 2013 OICP succeeds the UGI Corporation 2004 Omnibus Equity Compensation Plan Amended and Restated as of December 5, 2006 (the "2004

OECP”) for awards granted on

F-42

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

or after January 24, 2013. The 2004 OECP will continue in effect but all future grants issued pursuant to it will be solely in the form of options to acquire UGI Common Stock. Under the 2013 OICP, we may grant options to acquire shares of UGI Common Stock, stock appreciation rights (“SARs”), UGI Units (comprising “Stock Units” and “UGI Performance Units”), other equity-based awards and cash to employees and non-employee directors. The exercise price for options may not be less than the fair market value on the grant date. Awards granted under the 2013 OICP may vest immediately or ratably over a period of years, and stock options can be exercised no later than ten years from the grant date. In addition, the 2013 OICP provides that awards of UGI Units may also provide for the crediting of dividend equivalents to participants’ accounts. Except in the event of retirement, death or disability, each grant, unless paid, will terminate when the participant ceases to be employed. There are certain change of control and retirement eligibility conditions that, if met, generally result in accelerated vesting or elimination of further service requirements. Under the 2004 OECP, we could grant options to acquire shares of UGI Common Stock, UGI Units and other equity-based awards to employees and non-employee directors through January 23, 2013 (except with respect to the granting of stock option awards as previously mentioned). Under the 2004 OECP, the exercise price for stock options could not be less than the fair market value on the grant date. Awards granted under the 2004 OECP could vest immediately or ratably over a period of years, and stock options could be exercised no later than ten years from the date of grant. In addition, the 2004 OECP provided that the awards of UGI Units could include the crediting of dividend equivalents to participants’ accounts.

Under the 2013 OICP, awards representing up to 21,750,000 shares of UGI Common Stock may be granted. Dividend equivalents on UGI Unit awards to employees will be paid in cash. Dividend equivalents on non-employee director awards are accumulated in additional Stock Units. UGI Unit awards granted to employees and non-employee directors are settled in shares of UGI Common Stock and cash. Substantially all UGI Unit awards granted to France SAS employees are settled in shares of UGI Common Stock and do not accrue dividend equivalents. With respect to UGI Performance Unit awards, the actual number of shares (or their cash equivalent) ultimately issued, and the actual amount of dividend equivalents paid, is generally dependent upon the achievement of market performance goals and service conditions. It is currently our practice to issue treasury shares to satisfy substantially all option exercises and UGI Unit awards. Stock options may be net exercised whereby shares equal to the option price and the grantee’s minimum applicable payroll tax withholding are withheld from the number of shares payable (“net exercise”). We record shares withheld pursuant to a net exercise as shares reacquired.

UGI Stock Option Awards. Stock option transactions under equity-based compensation plans during Fiscal 2015, Fiscal 2016 and Fiscal 2017 follow:

	Shares	Weighted Average Option Price	Total Intrinsic Value	Weighted Average Contract Term (Years)
Shares under option — September 30, 2014	8,957,290	\$ 21.44	\$ 113.3	7.0
Granted	1,336,985	\$ 37.70		
Canceled	(85,365 )	\$ 30.45		
Exercised	(953,533 )	\$ 19.10	\$ 15.4	
Shares under option — September 30, 2015	9,255,377	\$ 23.97	\$ 104.5	6.6
Granted	1,510,625	\$ 34.67		
Canceled	(84,213 )	\$ 34.13		
Exercised	(2,193,338 )	\$ 20.38	\$ 40.1	
Shares under option — September 30, 2016	8,488,451	\$ 26.68	\$ 157.6	6.6
Granted	1,343,800	\$ 46.51		
Canceled	(60,236 )	\$ 41.86		
Exercised	(990,267 )	\$ 21.40	\$ 26.7	

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Shares under option — September 30, 2017	8,781,748	\$ 30.20	\$ 146.7	6.3
Options exercisable — September 30, 2015	6,050,946	\$ 20.74		
Options exercisable — September 30, 2016	5,522,370	\$ 22.94		
Options exercisable — September 30, 2017	5,973,668	\$ 25.53	\$ 127.4	5.3
Options not exercisable — September 30, 2012,808,080		\$ 40.13	\$ 19.3	7.8

F-43

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

Cash received from stock option exercises and associated tax benefits were \$17.7 and \$9.6, \$27.3 and \$14.9, and \$16.2 and \$5.8 in Fiscal 2017, Fiscal 2016 and Fiscal 2015, respectively. As of September 30, 2017, there was \$7.0 of unrecognized compensation cost associated with unvested stock options that is expected to be recognized over a weighted-average period of 1.9 years.

The following table presents additional information relating to stock options outstanding and exercisable at September 30, 2017:

	Range of exercise prices				
	Under \$20.00	\$20.00 – \$25.00	\$25.01 – \$30.00	\$30.01 – \$35.00	Over \$35.00
Options outstanding at September 30, 2017:					
Number of options	1,351,925	5,947,779	1,462,977	1,402,988	2,616,079
Weighted average remaining contractual life (in years)	3.3	4.6	6.1	8.1	8.3
Weighted average exercise price	\$ 18.26	\$ 21.57	\$ 27.43	\$ 33.66	\$ 42.93
Options exercisable at September 30, 2017:					
Number of options	1,351,925	5,947,779	1,342,377	499,351	832,236
Weighted average exercise price	\$ 18.26	\$ 21.57	\$ 27.42	\$ 33.52	\$ 38.81

UGI Stock Option Fair Value Information. The per share weighted-average fair value of stock options granted under our option plans was \$7.62 in Fiscal 2017, \$4.87 in Fiscal 2016 and \$5.47 in Fiscal 2015. These amounts were determined using a Black-Scholes option pricing model which values options based on the stock price at the grant date, the expected life of the option, the estimated volatility of the stock, expected dividend payments and the risk-free interest rate over the expected life of the option. The expected life of option awards represents the period of time during which option grants are expected to be outstanding and is derived from historical exercise patterns. Expected volatility is based on historical volatility of the price of UGI's Common Stock. Expected dividend yield is based on historical UGI dividend rates. The risk free interest rate is based on U.S. Treasury bonds with terms comparable to the options in effect on the date of grant.

The assumptions we used for valuing option grants during Fiscal 2017, Fiscal 2016 and Fiscal 2015 are as follows:

	2017	2016	2015
Expected life of option	5.75 years	5.75 years	5.75 years
Weighted average volatility	19.8%	19.5%	19.5%
Weighted average dividend yield	2.1%	2.6%	2.5%
Expected volatility	19.8%	19.3%	19.1% -19.5%
Expected dividend yield	2.1%	2.6%	2.5%
Risk free rate	1.8% - 2.1%	1.2% - 1.9%	1.5% - 1.8%

UGI Unit Awards. UGI Stock Unit and UGI Performance Unit awards entitle the grantee to shares of UGI Common Stock or cash once the service condition is met and, with respect to UGI Performance Unit awards, subject to market performance conditions. UGI Performance Unit grant recipients are awarded a target number of Performance Units. The number of UGI Performance Units ultimately paid at the end of the performance period (generally three years) may be higher or lower than the target amount, or even zero, based on UGI's Total Shareholder Return ("TSR") percentile rank relative to the Russell Midcap Utility Index, excluding telecommunication companies ("UGI comparator group"). For grants issued on or after January 1, 2013, grantees may receive 0% to 200% of the target award granted. For such grants, if UGI's TSR ranks below the 25th percentile compared to the UGI comparator group, the employee will not be paid. At the 25th percentile, the employee will be paid an award equal to 25% of the target award; at the 40th percentile, 70%; at the 50th percentile, 100%; and at the 90th percentile and above, 200%. For grants issued prior to January 1, 2013, grantees may receive 0% to 200% of the target award granted. For such grants,



if UGI's TSR ranks below the 40th percentile compared to the UGI comparator group, the employee will not be paid. At the 40th percentile, the employee will be paid an award equal to 50% of the target award; at the 50th percentile, 100%; and at the 100th percentile, 200%. The actual amount of the award is interpolated between these percentile rankings. Dividend equivalents are paid in cash only on UGI Performance Units that eventually vest. The fair value of UGI Stock Units on the grant date is equal to the market price of UGI Stock on the grant date plus the fair value of dividend equivalents if applicable. Under GAAP, UGI Performance Units are equity awards with a market-based condition

F-44

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

which, if settled in shares, results in the recognition of compensation cost over the requisite employee service period regardless of whether the market-based condition is satisfied. The fair values of UGI Performance Units are estimated using a Monte Carlo valuation model. The fair value associated with the target award is accounted for as equity and the fair value of the award over the target, as well as all dividend equivalents, is accounted for as a liability. The expected term of the UGI Performance Unit awards is three years based on the performance period. Expected volatility is based on the historical volatility of UGI Common Stock over a three-year period. The risk-free interest rate is based on the yields on U.S. Treasury bonds at the time of grant. Volatility for all companies in the UGI comparator groups is based on historical volatility.

The following table summarizes the weighted average assumptions used to determine the fair value of UGI Performance Unit awards and related compensation costs:

	Grants Awarded in		
	Fiscal Year		
	2017	2016	2015
Risk free rate	1.5%	1.3%	1.1%
Expected life	3 years	3 years	3 years
Expected volatility	18.9%	17.5%	15.9%
Dividend yield	2.1%	2.7%	2.3%

The weighted-average grant date fair value of UGI Performance Unit awards was estimated to be \$50.91 for Units granted in Fiscal 2017, \$32.64 for Units granted in Fiscal 2016 and \$38.43 for Units granted in Fiscal 2015.

The following table summarizes UGI Unit award activity for Fiscal 2017:

	Total	Vested		Non-Vested		
		Weighted Average Grant Date Fair Value (per Unit)	Number of UGI Units	Weighted Average Grant Date Fair Value (per Unit)	Number of UGI Units	Weighted Average Grant Date Fair Value (per Unit)
September 30, 2016	999,083	\$ 25.44	672,075	\$ 21.17	327,008	\$ 34.21
UGI Performance Units:						
Granted	143,300	\$ 50.91	20,283	\$ 50.94	123,017	\$ 50.90
Forfeited	(7,768 )	\$ 41.33	—	\$ —	(7,768 )	\$ 41.33
Vested	—	\$ —	131,409	\$ 33.67	(131,409)	\$ 33.67
Unit awards paid	(178,450)	\$ 32.47	(178,450)	\$ 32.47	—	\$ —
UGI Stock Units:						
Granted (a)	42,079	\$ 47.25	34,979	\$ 46.44	7,100	\$ 51.23
Unit awards paid	(19,410 )	\$ 18.69	(19,410 )	\$ 18.69	—	\$ —
September 30, 2017	978,834	\$ 28.83	660,886	\$ 23.93	317,948	\$ 41.10

(a) Generally, shares granted under UGI Stock Unit awards are paid approximately 70% in shares. UGI Stock Unit awards granted in Fiscal 2016 and Fiscal 2015 were 52,493 and 39,801, respectively.

Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

During Fiscal 2017, Fiscal 2016 and Fiscal 2015, the Company paid UGI Performance Unit and UGI Stock Unit awards in shares and cash as follows:

	2017	2016	2015
UGI Performance Unit awards:			
Number of original awards granted	178,450	308,362	294,300
Fiscal year granted	2014	2013	2012
Payment of awards:			
Shares of UGI Common Stock issued, net of shares withheld for taxes	138,985	209,592	188,418
Cash paid	\$ 10.9	\$ 13.9	\$ 13.3
UGI Stock Unit awards:			
Number of original awards granted	43,699	51,037	67,419
Payment of awards:			
Shares of UGI Common Stock issued, net of shares withheld for taxes	15,990	39,422	44,034
Cash paid	\$ 0.3	\$ 0.7	\$ 0.8

During Fiscal 2017, Fiscal 2016 and Fiscal 2015, we granted UGI Unit awards representing 185,379, 230,653 and 180,724 shares, respectively, having weighted-average grant date fair values per Unit of \$50.08, \$33.04 and \$38.20, respectively.

As of September 30, 2017, there was a total of approximately \$8.4 of unrecognized compensation cost associated with 978,834 UGI Unit awards outstanding that is expected to be recognized over a weighted-average period of 1.9 years. The total fair values of UGI Units that vested during Fiscal 2017, Fiscal 2016 and Fiscal 2015 were \$7.1, \$9.7 and \$15.3, respectively. As of September 30, 2017 and 2016, total liabilities of \$13.1 and \$18.5, respectively, associated with UGI Unit awards are reflected in "Employee compensation and benefits accrued" and "Other noncurrent liabilities" in the Consolidated Balance Sheets.

At September 30, 2017, 10,851,819 shares of Common Stock were available for future grants under the 2013 OICP, and up to 4,116 shares of Common Stock were available for future grants of stock options under the 2004 OECP. AmeriGas Partners Equity-Based Compensation Plans and Awards. Under the AmeriGas Propane, Inc. 2010 Long-Term Incentive Plan on Behalf of AmeriGas Partners, L.P. ("2010 Propane Plan"), the General Partner may award to employees and non-employee directors grants of AmeriGas Partners Units (comprising "AmeriGas Stock Units" and "AmeriGas Performance Units"), options, phantom units, unit appreciation rights and other Common Unit-based awards. The total aggregate number of Common Units that may be issued under the 2010 Propane Plan is 2,800,000. The exercise price for options may not be less than the fair market value on the date of grant. Awards granted under the 2010 Propane Plan may vest immediately or ratably over a period of years, and options can be exercised no later than ten years from the grant date. In addition, the 2010 Propane Plan provides that Common Unit-based awards may also provide for the crediting of Common Unit distribution equivalents to participants' accounts.

AmeriGas Stock Unit and AmeriGas Performance Unit awards entitle the grantee to AmeriGas Partners Common Units or cash once the service condition is met and, with respect to AmeriGas Performance Units, subject to market performance conditions, and for certain awards granted on or after January 1, 2015, actual net customer acquisition and retention performance. Recipients of AmeriGas Performance Unit awards are awarded a target number of AmeriGas Performance Units. The number of AmeriGas Performance Units ultimately paid at the end of the performance period (generally three years) may be higher or lower than the target number, or it may be zero. For that portion of Performance Unit awards whose ultimate payout is based upon market-based conditions (as further described below), the number of awards ultimately paid is based upon AmeriGas Partners' Total Unitholder Return ("TUR") percentile rank relative to entities in a master limited partnership peer group ("Alerian MLP Group") and, for certain AmeriGas Performance Unit awards granted in January 2014, based upon AmeriGas Partners' TUR relative to the two other publicly traded propane master limited partnerships in the Alerian MLP Group ("Propane MLP Group").

For Performance Unit awards granted on or after January 1, 2015, the number of AmeriGas Performance Units ultimately paid is based upon AmeriGas Partner's TUR percentile rank relative to entities in the Alerian MLP Group as modified by AmeriGas Partners' performance relative to the Propane MLP Group.

With respect to AmeriGas Performance Unit awards subject to measurement compared with the Alerian MLP Group, grantees may receive from 0% to 200% of the target award granted. For such grants issued on or after January 1, 2013, if AmeriGas

F-46

---

Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

Partners' TUR is below the 25th percentile compared to the peer group, the grantee will not be paid. At the 25th percentile, the employee will be paid an award equal to 25% of the target award; at the 40th percentile, 70%; at the 50th percentile, 100%; at the 60th percentile, 125%; at the 75th percentile, 162.5%; and at the 90th percentile or above, 200%. The actual amount of the award is interpolated between these percentile rankings. For such grants issued on or after January 1, 2015, the amount ultimately paid shall be modified based upon AmeriGas Partners' TUR ranking relative to the Propane MLP Group over the performance period ("MLP Modifier"). Such modification ranges from 70% to 130%, but in no event shall the amount ultimately paid, after such modification, exceed 200% of the target award grant.

With respect to AmeriGas Performance Unit awards granted in January 2014 subject to measurement compared with the Propane MLP Group, grantees were eligible to receive 150% of the target award if AmeriGas Partners' TUR exceeded the TUR of all the other members in the Propane MLP Group. Otherwise there would be no payout of such AmeriGas Performance Units. If one of the other two members of the Propane MLP Group ceased to exist as a publicly traded company or declares bankruptcy ("MLP Event") and depending upon the timing of such MLP Event, the ultimate amount of such AmeriGas Performance Unit awards to be issued pursuant to the January 2014 grant, and the amount of distribution equivalents to be paid, would depend upon AmeriGas Partners' TUR rank relative to (1) the Alerian MLP Group for the entire performance period; (2) the Alerian MLP Group for the entire performance period and the Propane MLP Group (through the date of the MLP Event); or (3) the Propane MLP Group through the date of the MLP Event. For those performance awards granted on or after January 1, 2015, that are subject to the MLP Modifier, if an MLP Event were to occur during the performance period such MLP Modifier would be based upon AmeriGas Partners' TUR rank as determined in (1),(2) or (3) above, as appropriate.

With respect to AmeriGas Performance Unit awards granted in January 2015 whose payout is based upon net customer gain and retention performance, grantees may ultimately receive between 0% and 200% of the target award based upon the annual actual net customer gain and retention performance as adjusted for the net customer gain and retention performance over the three-year performance period. With respect to AmeriGas Performance Unit awards granted in January 2016 and 2017 whose payout is based upon net customer gain and retention performance, grantees may ultimately receive between 0% and 200% of the target award based upon the actual net customer gain and retention performance over the entire three-year performance period.

Common Unit distribution equivalents are paid in cash only on AmeriGas Performance Units that eventually vest. Generally, except in the event of retirement, death or disability, each grant, unless paid, will terminate when the participant ceases to be employed. There are certain change of control and retirement eligibility conditions that, if met, generally result in accelerated vesting or elimination of further service requirements.

Under GAAP, AmeriGas Performance Units awards that are subject to market-based conditions are equity awards that, if settled in Common Units, result in the recognition of compensation cost over the requisite employee service period regardless of whether the market-based condition is satisfied. The fair values of AmeriGas Performance Units subject to market-based conditions are estimated using a Monte Carlo valuation model. The fair value associated with the target award, which will be paid in Common Units, is accounted for as equity and the fair value of the award over the target, as well as all Common Unit distribution equivalents, which will be paid in cash, is accounted for as a liability. For purposes of valuing AmeriGas Performance Unit awards that are subject to market-based conditions, expected volatility is based on the historical volatility of Common Units over a three-year period. The risk-free interest rate is based on the rates on U.S. Treasury bonds at the time of grant. Volatility for all entities in the peer group is based on historical volatility. The expected term of the AmeriGas Performance Unit awards is three years based on the performance period. AmeriGas Performance Unit awards whose ultimate payout is based upon net customer acquisition and retention performance measures are recorded as expense when it is probable all or a portion of the award will be paid. The fair value associated with the target award is the market price of the Common Units on the date of grant. The fair value of the award over the target, as well as all Common Unit distribution equivalents,

which will be paid in cash, is accounted for as a liability.

The following table summarizes the weighted-average assumptions used to determine the fair value of AmeriGas Performance Unit awards subject to market-based conditions and related compensation costs:

	Grants Awarded in		
	Fiscal Year		
	2017	2016	2015
Risk-free rate	1.5%	1.3%	0.9%
Expected life	3 years	3 years	3 years
Expected volatility	21.7%	20.6%	19.2%
Dividend yield	7.8%	10.7%	6.8%

F-47

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

The General Partner granted awards under the 2010 Propane Plan representing 67,563, 73,080 and 80,336 Common Units in Fiscal 2017, Fiscal 2016 and Fiscal 2015, respectively, having weighted-average grant date fair values per Common Unit subject to award of \$52.37, \$37.93 and \$61.00, respectively. At September 30, 2017, 2,287,879 Common Units were available for future award grants under the 2010 Propane Plan.

The following table summarizes AmeriGas Common Unit-based award activity for Fiscal 2017:

	Total		Vested		Non-Vested	
	Number of AmeriGas Partners Common Units Subject to Award	Weighted Average Grant Date Fair Value (per Unit)	Number of AmeriGas Partners Common Units Subject to Award	Weighted Average Grant Date Fair Value (per Unit)	Number of AmeriGas Partners Common Units Subject to Award	Weighted Average Grant Date Fair Value (per Unit)
September 30, 2016	210,549	\$ 47.24	55,622	\$ 45.67	154,927	\$ 47.80
AmeriGas Performance Units:						
Granted	49,225	\$ 54.24	633	\$ 54.45	48,592	\$ 54.24
Forfeited	(9,151 )	\$ 48.76	—	\$ —	(9,151 )	\$ 48.76
Vested	—	\$ —	40,933	\$ 42.55	(40,933 )	\$ 42.55
Awards paid	(44,732 )	\$ 41.53	(44,732 )	\$ 41.53	—	\$ —
AmeriGas Stock Units:						
Granted	18,338	\$ 47.33	12,738	\$ 48.06	5,600	\$ 45.66
Vested	—	\$ —	6,800	\$ 46.13	(6,800 )	\$ 46.13
Awards paid	(6,005 )	\$ 43.64	(6,005 )	\$ 43.64	—	\$ —
September 30, 2017	218,224	\$ 50.03	65,989	\$ 47.31	152,235	\$ 51.21

During Fiscal 2017, Fiscal 2016 and Fiscal 2015, the Partnership paid AmeriGas Performance Unit and AmeriGas Stock Unit awards in Common Units and cash as follows:

	2017	2016	2015
AmeriGas Performance Unit awards:			
Number of Common Units subject to original awards granted	53,800	44,800	55,750
Fiscal year granted	2014	2013	2012
Payment of awards:			
AmeriGas Partners Common Units issued, net of units withheld for taxes	29,489	23,017	—
Cash paid	\$ 2.9	\$ 1.7	\$ —
AmeriGas Stock Unit awards:			
Number of Common Units subject to original awards granted	32,658	20,336	42,532
Payment of awards:			
AmeriGas Partners Common Units issued, net of units withheld for taxes	3,932	9,272	21,509
Cash paid	\$ 0.1	\$ 0.4	\$ 0.8

As of September 30, 2017, there was a total of approximately \$1.7 of unrecognized compensation cost associated with 218,224 Common Units subject to award that is expected to be recognized over a weighted-average period of 1.7 years. The total fair values of Common Unit-based awards that vested during Fiscal 2017, Fiscal 2016 and Fiscal 2015 were \$2.1, \$2.0 and \$2.6, respectively. As of September 30, 2017 and 2016, total liabilities of \$2.5 and \$3.5 associated

with Common Unit-based awards are reflected in “Employee compensation and benefits accrued” and “Other noncurrent liabilities” in the Consolidated Balance Sheets. It is the Partnership’s practice to issue new AmeriGas Partners Common Units for the portion of any Common Unit-based awards paid in AmeriGas Partners Common Units.

F-48

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

## Note 14 — Partnership Distributions

The Partnership makes distributions to its partners approximately 45 days after the end of each fiscal quarter in a total amount equal to its Available Cash (as defined in the Partnership Agreement) for such quarter. Available Cash generally means:

1. all cash on hand at the end of such quarter, plus
2. all additional cash on hand as of the date of determination resulting from borrowings after the end of such quarter, less
3. the amount of cash reserves established by the General Partner in its reasonable discretion.

The General Partner may establish reserves for the proper conduct of the Partnership's business and for distributions during the next four quarters.

Distributions of Available Cash are made 98% to limited partners and 2% to the General Partner (representing a 1% General Partner interest in AmeriGas Partners and 1.01% interest in AmeriGas OLP) until Available Cash exceeds the Minimum Quarterly Distribution of \$0.55 and the First Target Distribution of \$0.055 per Common Unit (or a total of \$0.605 per Common Unit). When Available Cash exceeds \$0.605 per Common Unit in any quarter, the General Partner will receive a greater percentage of the total Partnership distribution (the "incentive distribution") but only with respect to the amount by which the distribution per Common Unit to limited partners exceeds \$0.605.

During Fiscal 2017, Fiscal 2016 and Fiscal 2015, the Partnership made quarterly distributions to Common Unitholders in excess of \$0.605 per limited partner unit. As a result, the General Partner has received a greater percentage of the total Partnership distribution than its aggregate 2% general partner interest in AmeriGas OLP and AmeriGas Partners. During Fiscal 2017, Fiscal 2016 and Fiscal 2015, the total amount of distributions received by the General Partner with respect to its aggregate 2% general partner ownership interests totaled \$52.7, \$47.4 and \$39.3, respectively. Included in these amounts are incentive distributions received by the General Partner during Fiscal 2017, Fiscal 2016 and Fiscal 2015 of \$43.5, \$38.2 and \$30.4, respectively.

## Note 15 — Commitments and Contingencies

## Commitments

## Leases

We lease various buildings and other facilities and vehicles, computer and office equipment under operating leases. Certain of our leases contain renewal and purchase options and also contain step-rent provisions. Our aggregate rental expense for such leases was \$99.5 in Fiscal 2017, \$102.0 in Fiscal 2016 and \$86.1 in Fiscal 2015.

Minimum future payments under operating leases that have initial or remaining noncancelable terms in excess of one year are as follows:

	2018	2019	2020	2021	2022	After 2022
AmeriGas Propane	\$70.0	\$61.7	\$56.5	\$48.9	\$40.7	\$110.3
UGI Utilities	7.5	6.0	4.4	2.7	0.8	0.2
UGI International	11.2	8.1	6.6	4.7	3.2	3.2
Other	2.3	2.0	1.9	0.9	0.5	0.6
Total	\$91.0	\$77.8	\$69.4	\$57.2	\$45.2	\$114.3

## 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.

In consideration for any capital contributions made pursuant to the Commitment Agreement, the Partnership will issue to UGI or a wholly owned subsidiary new Class B Common Units representing limited partner interests in the Partnership (“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 the Partnership’s common units (“Common Units”) prior to the date of the Partnership’s related capital call. The Class B Units will be entitled to

F-49

---

Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

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.

Contingencies

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 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 a consent order and agreement (“COA”) with the 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 scheduled to terminate at the end of 2031, 2018 and 2019, respectively. At September 30, 2017 and 2016, our estimated accrued liabilities for environmental investigation and remediation costs related to the COAs for UGI Utilities, CPG and PNG totaled \$54.3 and \$55.1, 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 8).

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 September 30, 2017 and 2016, neither the undiscounted nor the accrued liability for environmental investigation and cleanup costs for UGI Utilities' MGP sites outside of Pennsylvania was material.

F-50

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

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 the site and requested additional information regarding AmeriGas OLP’s purported ownership. The selected remedies identified in the RODs total approximately \$27.7. To AmeriGas OLP’s knowledge, the DEC has not yet commenced implementation of the remediation plan but remediation is currently expected to commence in 2018. 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. Based on our evaluation of the available information, during Fiscal 2017, the Partnership accrued an environmental remediation liability of \$7.5 related to the site, which amount is included in “Operating and administrative expenses” on the Consolidated Statements of Income. 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, more than 35 purported class action lawsuits were filed in multiple jurisdictions against the Partnership/UGI Corporation 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.

In July 2015, the District Court also dismissed all claims brought by the indirect customers other than those 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; such appeal was subject to a stay pending the en banc review of the direct purchasers’ claims. In light of the Eighth Circuit decision with respect to the direct purchasers’ claims, the briefing schedule in respect of the indirect purchaser appeal will now resume. 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 still pending in the Eighth Circuit. Now that the Eighth Circuit ruled on the direct purchasers’

claims, the stay has been lifted for the indirect claims and the parties submitted briefs in October 2017 to the Eighth Circuit and are waiting the court's ruling.

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.

F-51

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

## Note 16 — 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 as described in Note 2, as of September 30, 2017 and 2016:

	Asset (Liability)			Total
	Level 1	Level 2	Level 3	
September 30, 2017:				
Derivative instruments:				
Assets:				
Commodity contracts	\$27.2	\$76.9	\$	—\$104.1
Foreign currency contracts	\$—	\$12.2	\$	—\$12.2
Liabilities:				
Commodity contracts	\$(27.7)	\$(11.4)	\$	—\$(39.1)
Foreign currency contracts	\$—	\$(38.2)	\$	—\$(38.2)
Cross-currency swaps	\$—	\$(2.9)	\$	—\$(2.9)
Interest rate contracts	\$—	\$(2.3)	\$	—\$(2.3)
Non-qualified supplemental postretirement grantor trust investments (a)	\$35.6	\$—	\$	—\$35.6
September 30, 2016				
Derivative instruments:				
Assets:				
Commodity contracts	\$28.9	\$26.0	\$	—\$54.9
Foreign currency contracts	\$—	\$17.8	\$	—\$17.8
Liabilities:				
Commodity contracts	\$(76.8)	\$(21.8)	\$	—\$(98.6)
Foreign currency contracts	\$—	\$(2.4)	\$	—\$(2.4)
Interest rate contracts	\$—	\$(3.9)	\$	—\$(3.9)
Cross-currency swaps	\$—	\$(0.5)	\$	—\$(0.5)
Non-qualified supplemental postretirement grantor trust investments (a)	\$33.0	\$—	\$	—\$33.0

(a) Consists primarily of mutual fund investments held in grantor trusts associated with non-qualified supplemental retirement plans (see Note 7).

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. For commodity option contracts designated as Level 2 that are not traded on an exchange, we use a Black Scholes option pricing model that considers time value and volatility of the underlying commodity. The fair values of our Level 2 interest rate contracts, foreign currency contracts and cross-currency contracts are based upon third-party quotes or indicative values based on recent market transactions. The fair values of investments held in grantor trusts are derived from quoted market prices as substantially all of the investments in these trusts have active markets. There were no

transfers between Level 1 and Level 2 during the periods presented.

F-52

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

## Other Financial Instruments

The carrying amounts of other financial instruments included in current assets and current liabilities (except for current maturities of long-term debt) approximate their fair values because of their short-term nature. We estimate the fair value of long-term debt by using current market rates and by discounting future cash flows using rates available for similar type debt (Level 2). The carrying amount and estimated fair value of our long-term debt (including current maturities but excluding unamortized debt issuance costs) at September 30, 2017 and 2016 were as follows:

	2017	2016
Carrying amount	\$4,211.9	\$3,832.3
Estimated fair value	\$4,346.8	\$4,052.3

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 17. Our investment in a private equity partnership is measured at fair value on a non-recurring basis. Generally this measurement uses Level 3 fair value inputs because the investment does not have a readily available market value. See Note 2 for additional information on this investment.

## Note 17 — 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 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 of the prudently incurred costs of natural gas it sells to retail core-market customers, including the cost of financial instruments used to hedge PGC. As permitted and agreed to by the PUC pursuant to Gas Utility's annual PGC filings, Gas Utility currently uses New York Mercantile Exchange ("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 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).

## Electricity

Electric Utility's DS tariffs permit the recovery of all prudently incurred costs of electricity it sells to DS customers, including the cost of financial instruments used to hedge electricity costs. Electric Utility enters into forward electricity purchase contracts to meet a substantial portion of its electricity supply needs. At September 30, 2017 and 2016, all Electric Utility forward electricity purchase contracts were subject to the NPNS exception.

In order to reduce volatility associated with a substantial portion of its electricity transmission congestion costs, Electric Utility obtains FTRs through an annual allocation process. Gains and losses on Electric Utility FTRs are recorded in regulatory assets or

F-53

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

liabilities because it is probable such gains or losses will be recoverable from, or refundable to, customers through the DS 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 and our UGI International operations also use over-the-counter price swap and option 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 and put option agreements to reduce the effects of short-term commodity price volatility. Also, Midstream & Marketing 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 natural gas, Midstream & Marketing enters into NYMEX and over-the-counter natural gas futures and forward contracts and Intercontinental Exchange ("ICE") natural gas basis swap contracts. In addition, Midstream & Marketing uses NYMEX futures contracts to economically hedge the gross margin associated with the purchase and anticipated later near-term sale of natural gas. 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. From time to time, Midstream & Marketing purchases FTRs to economically hedge electricity transmission congestion costs associated with its fixed-price electricity sales contracts and from time to time also enters into New York Independent System Operator ("NYISO") capacity swap contracts to economically hedge the locational basis differences for customers it serves on the NYISO electricity grid. 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

France SAS' and Flaga's long-term debt agreements have interest rates that are generally indexed to short-term market interest rates. France SAS and Flaga have each entered into pay-fixed, receive-variable interest rate swap agreements to hedge the underlying euribor and LIBOR rates of interest on their variable-rate term loans. The France SAS swaps were originally executed in Fiscal 2015, at which time such swaps were designated in a cash flow hedging relationship associated with €600 notional amount of term loan debt issued in conjunction with the Totalgaz Acquisition. In March 2016, France SAS amended the terms of its pay-fixed, receive-variable interest rate swap agreements associated with the €600 term loan debt to purchase a 0% floor that is identical to the 0% floor embedded in France SAS' term loan debt. In conjunction with the amendments, in March 2016, France SAS paid its interest rate swap counterparties €7.7, which amount substantially equaled the interest rate swaps' fair value. Concurrent with the amendments to the interest rate swaps, the swaps were simultaneously de-designated and re-designated as cash flow hedges of future anticipated interest payments associated with the €600 term loan debt. The amended swaps fix the underlying euribor rate on the €600 term loan at 0.18%.

Our domestic businesses' 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 interest rate protection agreements ("IRPAs"). We account for interest rate swaps and IRPAs as cash flow hedges. On March 31, 2016, concurrent with the pricing of

UGI Utilities' Senior Notes to be issued under the 2016 Note Purchase Agreement, UGI Utilities settled all of its then-existing IRPA contracts associated with such debt at a loss of \$36.0. Because these IRPA contracts qualified for and were designated as cash flow hedges, the loss recognized in connection with the settled IRPAs was recorded in AOCI and is being recognized in interest expense as the associated future interest expense impacts earnings.

F-54

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

At September 30, 2017 and 2016, we had no unsettled IRPAs. At September 30, 2017, the amount of 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 exposure to foreign exchange rate volatility related to our foreign LPG operations, through September 30, 2016, we 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. We account for these foreign currency exchange contracts associated with anticipated purchases of U.S. dollar-denominated LPG as cash flow hedges. At September 30, 2017, the amount of net losses associated with currency rate risk expected to be reclassified into earnings during the next twelve months based upon current fair values is \$0.9.

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 between the euro and British pound sterling, we have entered into forward foreign currency exchange contracts. The fair value of these forward foreign currency contracts are recorded as assets or liabilities on the Consolidated Balance Sheets. Changes in the fair value of these foreign currency exchange contracts are recorded in "Losses on foreign currency contracts, net" on the Consolidated Statements of Income.

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 as net investment hedges. At September 30, 2017 and 2016, there were no unsettled net investment hedges outstanding.

Cross-currency Swaps

From time to time, Flaga enters into cross-currency swaps to hedge its exposure to the variability in expected future cash flows associated with the foreign currency and interest rate risk of U.S. dollar-denominated debt. These cross-currency hedges include initial and final exchanges of principal from a fixed euro denomination to a fixed U.S. dollar-denominated amount, to be exchanged at a specified rate, which was determined by the market spot rate on the date of issuance. These cross-currency swaps also include interest rate swaps of a floating U.S. dollar-denominated interest rate to a fixed euro-denominated interest rate. We designate these cross-currency swaps as cash flow hedges. At September 30, 2017, the amount of net losses associated with such cross-currency swaps expected to be reclassified into earnings during the next twelve months is not material.

Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

## Quantitative Disclosures Related to Derivative Instruments

The following table summarizes by derivative type the gross notional amounts related to open derivative contracts at September 30, 2017 and 2016 and the final settlement date of the Company's open derivative transactions as of September 30, 2017, excluding those derivatives that qualified for the NPNS exception:

Type	Units	Settlements Extending Through	Notional Amounts (in millions)	
			2017	2016
Commodity Price Risk:				
Regulated Utility Operations				
Gas Utility NYMEX natural gas futures and option contracts	Dekatherms	September 2018	14.8	18.4
FTRs contracts	Kilowatt hours	May 2018	101.2	58.3
Non-utility Operations				
LPG swaps & options	Gallons	March 2020	325.5	396.9
Natural gas futures, forward and pipeline contracts (a)	Dekatherms	December 2021	75.9	71.1
Natural gas basis swap contracts	Dekatherms	March 2022	104.2	118.3
NYMEX natural gas storage	Dekatherms	March 2019	1.9	1.9
NYMEX propane storage	Gallons	March 2018	0.3	—
Electricity long forward and futures contracts (a)	Kilowatt hours	May 2021	4,440.3	761.2
Electricity short forward and futures contracts	Kilowatt hours	May 2021	447.0	264.6
Interest Rate Risk:				
Interest rate swaps	Euro	October 2020	€645.8	€645.8
Foreign Currency Exchange Rate Risk:				
Forward foreign currency exchange contracts	USD	September 2020	\$424.8	\$314.3
Cross-currency swaps	USD	September 2018	\$59.1	\$59.1

(a) Amounts in 2017 include derivative contracts held by a natural gas and electricity marketing business in the Netherlands acquired in Fiscal 2017.

## Derivative Instrument Credit Risk

We are exposed to risk of loss in the event of nonperformance by our derivative instrument counterparties. Our derivative instrument counterparties principally comprise large energy companies and major U.S. and international financial institutions. We maintain credit policies with regard to our counterparties that we believe reduce overall credit risk. These policies include evaluating and monitoring our counterparties' financial condition, including their credit ratings, and entering into agreements with counterparties that govern credit limits or entering into netting agreements that allow for offsetting counterparty receivable and payable balances for certain financial transactions, as deemed appropriate. Certain of these agreements call for the posting of collateral by the counterparty or by the Company in the forms of letters of credit, parental guarantees or cash. Additionally, our commodity exchange-traded futures contracts generally require cash deposits in margin accounts. At September 30, 2017 and 2016, restricted cash in brokerage accounts totaled \$10.3 and \$15.6, respectively. 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 September 30, 2017. 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 September 30, 2017, if the credit-risk-related contingent features were triggered, the amount of collateral

required to be posted would not be material.

F-56

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

Offsetting Derivative Assets and Liabilities

Derivative assets and liabilities are presented net by counterparty on the 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 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.

F-57

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

## Fair Value of Derivative Instruments

The following table presents the Company's derivative assets and liabilities by type, as well as the effects of offsetting, as of September 30, 2017 and 2016:

	2017	2016
Derivative assets:		
Derivatives designated as hedging instruments:		
Foreign currency contracts	\$3.2	\$17.8
Derivatives subject to PGC and DS mechanisms:		
Commodity contracts	1.7	4.5
Derivatives not designated as hedging instruments:		
Commodity contracts	102.4	50.4
Foreign currency contracts	9.0	—
	111.4	50.4
Total derivative assets – gross	116.3	72.7
Gross amounts offset in the balance sheet	(35.7 )	(35.0 )
Cash collateral received	(8.3 )	(0.3 )
Total derivative assets – net	\$72.3	\$37.4
Derivative liabilities:		
Derivatives designated as hedging instruments:		
Foreign currency contracts	\$(5.5 )	\$(2.4 )
Cross-currency contracts	(2.9 )	(0.5 )
Interest rate contracts	(2.3 )	(3.9 )
	(10.7 )	(6.8 )
Derivatives subject to PGC and DS mechanisms:		
Commodity contracts	(1.5 )	(0.5 )
Derivatives not designated as hedging instruments:		
Commodity contracts	(37.6 )	(98.1 )
Foreign currency contracts	(32.7 )	—
	(70.3 )	(98.1 )
Total derivative liabilities – gross	(82.5 )	(105.4 )
Gross amounts offset in the balance sheet	35.7	35.0
Total derivative liabilities – net	\$(46.8)	\$(70.4)

F-58

Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

## Effects of Derivative Instruments

The following tables provide information on the effects of derivative instruments on the Consolidated Statements of Income and changes in AOCI and noncontrolling interests for Fiscal 2017, Fiscal 2016 and Fiscal 2015:

	Gain (Loss) Recognized in AOCI			Gain (Loss) Reclassified from AOCI and Noncontrolling Interests into Income			Location of Gain (Loss) Reclassified from AOCI and Noncontrolling Interests into Income
	2017	2016	2015	2017	2016	2015	
Cash Flow Hedges:							
Commodity contracts	\$—	\$—	\$—	\$—	\$—	\$(2.2)	Cost of sales
Foreign currency contracts	0.2	3.6	26.0	17.8	17.2	9.7	Cost of sales
Cross-currency contracts	0.5	0.1	5.4	(0.1 )	0.4	8.5	Interest expense /other operating income, net
Interest rate contracts	1.5	(32.5 )	(6.6 )	(3.9 )	(4.5 )	(20.4 )	Interest expense
Total	\$2.2	\$(28.8)	\$24.8	\$13.8	\$13.1	\$(4.4)	

	Gain (Loss) Recognized in Income			Location of Gain (Loss) Recognized in Income
	2017	2016	2015	
Derivatives Not Designated as Hedging Instruments:				
Commodity contracts	\$166.0	\$(65.0)	\$(375.8)	Cost of sales
Commodity contracts	(2.0 )	(2.2 )	0.3	Revenues
Commodity contracts	0.2	(0.1 )	(0.8 )	Operating and administrative expenses / other operating income, net
Foreign currency contracts	(23.8 )	—	—	Losses on foreign currency contracts, net
Total	\$140.4	\$(67.3)	\$(376.3)	

For Fiscal 2017 and Fiscal 2015, the amounts of derivative gains or losses representing ineffectiveness, and the amounts of gains or losses recognized in income as a result of excluding derivatives from ineffectiveness testing, were not material. For Fiscal 2016 the amounts of derivative gains or losses representing ineffectiveness were losses of \$5.5, which were recorded in "Other operating income, net," on the Consolidated Statements of Income and are related to interest rate swap agreements at France SAS prior to their amendments in March 2016.

In May 2015, the Company prepaid term loans outstanding under Antargaz' 2011 Senior Facilities Agreement. In conjunction with the prepayment, the Company also settled associated pay-fixed, receive-variable interest rate swaps, and discontinued cash flow hedge accounting treatment for such swaps. During Fiscal 2015, the Company recorded a pre-tax loss of \$9.0 associated with the discontinuance of cash flow hedge accounting for the swaps, which amount is included in "Interest expense" on the Consolidated Statements of Income.

We are also a party to a number of other contracts that have elements of a derivative instrument. 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. Although certain of these contracts have the requisite elements of a derivative instrument, these contracts qualify for NPNS exception accounting under GAAP because they provide for the delivery of products or services in quantities that are expected to be used in the normal course of operating our business and the price in the contract is based on an underlying that is directly associated with the price of the product or service being purchased or sold.



Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

## Note 18 — Accumulated Other Comprehensive Income (Loss)

Other comprehensive income (loss) principally comprises (1) gains and losses on derivative instruments qualifying as cash flow hedges, net of reclassifications to net income; (2) actuarial gains and losses on postretirement benefit plans, net of associated amortization; and (3) foreign currency translation and long-term intra-company transaction adjustments.

Changes in AOCI during Fiscal 2017, Fiscal 2016 and Fiscal 2015 are as follows:

	Postretirement Benefit Plans	Derivative Instruments	Foreign Currency	Total
AOCI - September 30, 2014	\$ (20.6 )	\$ (9.3 )	\$8.7	\$(21.2 )
Other comprehensive (loss) income before reclassification adjustments (after-tax)	(1.2 )	16.8	(114.1 )	(98.5 )
Amounts reclassified from AOCI and noncontrolling interests:				
Reclassification adjustments (pre-tax)	2.2	4.4	—	6.6
Reclassification adjustments tax benefit	(0.8 )	(2.8 )	—	(3.6 )
Reclassification adjustments (after-tax)	1.4	1.6	—	3.0
Other comprehensive income (loss)	0.2	18.4	(114.1 )	(95.5 )
Add comprehensive loss attributable to noncontrolling interests, principally in AmeriGas Partners	—	2.1	—	2.1
Other comprehensive income (loss) attributable to UGI	0.2	20.5	(114.1 )	(93.4 )
AOCI - September 30, 2015	\$ (20.4 )	\$ 11.2	\$(105.4 )	\$(114.6 )
Other comprehensive loss before reclassification adjustments (after-tax)	(10.9 )	(16.5 )	(6.8 )	(34.2 )
Amounts reclassified from AOCI:				
Reclassification adjustments (pre-tax)	2.6	(13.1 )	—	(10.5 )
Reclassification adjustments tax (benefit) expense	(0.4 )	5.0	—	4.6
Reclassification adjustments (after-tax)	2.2	(8.1 )	—	(5.9 )
Other comprehensive loss attributable to UGI	(8.7 )	(24.6 )	(6.8 )	(40.1 )
AOCI - September 30, 2016	\$ (29.1 )	\$ (13.4 )	\$(112.2 )	\$(154.7 )
Other comprehensive income before reclassification adjustments (after-tax)	6.5	1.7	59.4	67.6
Amounts reclassified from AOCI:				
Reclassification adjustments (pre-tax)	5.5	(13.8 )	—	(8.3 )
Reclassification adjustments tax (benefit) expense	(2.1 )	4.1	—	2.0
Reclassification adjustments (after-tax)	3.4	(9.7 )	—	(6.3 )
Other comprehensive income (loss) attributable to UGI	9.9	(8.0 )	59.4	61.3
AOCI - September 30, 2017	\$ (19.2 )	\$ (21.4 )	\$(52.8 )	\$(93.4 )

For additional information on amounts reclassified from AOCI relating to derivative instruments, see Note 17.

Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

## Note 19 — Other Operating Income, Net

Other operating income, net, comprises the following:

	2017	2016	2015
Finance charges	\$11.8	\$15.2	\$12.7
AFUDC associated with pipeline projects	5.5	3.3	—
Interest and interest-related income	1.7	0.2	0.8
Utility non-tariff service income	1.5	2.6	4.8
Loss on private equity partnership investment	(11.0 )	—	—
(Losses) gains on sales of fixed assets, net	(3.9 )	3.3	11.1
Other, net	4.9	(2.2 )	15.0
Total other operating income, net	\$10.5	\$22.4	\$44.4

## Note 20 — Quarterly Data (unaudited)

The following unaudited quarterly data includes adjustments (consisting only of normal recurring adjustments with the exception of those indicated below) which we consider necessary for a fair presentation unless otherwise indicated. Our quarterly results fluctuate primarily because of the seasonal nature of our businesses and the effects of unrealized gains and losses on commodity and certain foreign currency derivative instruments (see Note 17).

	December 31,		March 31,		June 30,		September 30,	
	2016	2015	2017	2016	2017	2016	2017	2016
	(a)(b)		(b)(c)		(b)	(d)	(a)(c)	(d)
Revenues	\$1,679.5	\$1,606.6	\$2,173.8	\$1,972.1	\$1,153.5	\$1,130.8	\$1,113.9	\$976.2
Operating income (loss)	\$466.2	\$305.5	\$513.2	\$615.4	\$(2.8 )	\$155.7	\$27.6	\$(88.6 )
(Loss) income from equity investees	\$(0.2 )	\$(0.1 )	\$2.3	\$—	\$0.9	\$—	\$1.3	\$(0.1 )
Loss on extinguishments of debt	\$(33.2 )	\$—	\$(22.1 )	\$—	\$(4.4 )	\$(37.1 )	\$—	\$(11.8 )
Net income (loss) including noncontrolling interests	\$290.9	\$167.9	\$311.8	\$408.0	\$(62.2 )	\$28.6	\$(16.7 )	\$(115.7)
Net income (loss) attributable to UGI Corporation	\$230.7	\$114.6	\$219.9	\$233.2	\$(19.0 )	\$60.7	\$5.0	\$(43.8 )
Earnings (loss) per common share attributable to UGI Corporation stockholders:								
Basic	\$1.33	\$0.66	\$1.27	\$1.35	\$(0.11 )	\$0.35	\$0.03	\$(0.25 )
Diluted	\$1.30	\$0.65	\$1.24	\$1.33	\$(0.11 )	\$0.34	\$0.03	\$(0.25 )

The quarter ended December 31, 2016 includes beneficial impact of adjustments to net deferred income tax liabilities associated with a change in French income tax rate which increased net income attributable to UGI Corporation by \$27.4 or \$0.15 per diluted share, and the impact of an income tax settlement refund in France which increased net income attributable to UGI Corporation by \$6.7 or \$0.04 per diluted share. The quarter ended September 30, 2017 includes the release of a valuation allowance against future uses of foreign tax credit carryforwards, which increased net income attributable to UGI Corporation by \$7.6 or \$0.04 per diluted share. The quarter ended December 31, 2016 includes loss on extinguishments of debt at AmeriGas Partners which decreased net income attributable to UGI Corporation by \$5.3 or \$0.03 per diluted share. The quarter ended March 31, 2017 includes loss on extinguishments of debt at AmeriGas Partners which decreased net income attributable to UGI Corporation by \$3.6 or \$0.02. The quarter ended June 30, 2017 includes loss on extinguishments of debt at AmeriGas Partners which increased net loss attributable to UGI Corporation by \$0.7 or \$0.01 per diluted share (see Note 5).

The quarter ended March 31, 2017 includes impairment of a cost basis investment which decreased net income (c) attributable to UGI Corporation by \$4.5 or \$0.03 per diluted share. The quarter ended September 30, 2017 includes impairment of a cost

F-61

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

basis investment which decreased net income attributable to UGI Corporation by \$2.6 or \$0.02 per diluted share for the quarter ended September 30, 2017 (see Note 2).

(d) The quarter ended June 30, 2016 includes loss on extinguishments of debt at AmeriGas Partners which decreased net income attributable to UGI Corporation by \$6.1 or \$0.03 per diluted share. The quarter ended September 30, 2016 includes loss on extinguishments of debt at AmeriGas Partners which increased net loss attributable to UGI Corporation by \$1.8 or \$0.01 per diluted share for the quarter ended September 30, 2016 (see Note 5).

Note 21 — 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.

As a result of changes in the composition of information reported to our chief operating decision maker (“CODM”), effective October 1, 2016, we combined (1) our UGI France reportable segment with our Flaga & Other reportable segment, collectively referred to as “UGI International,” and (2) our Energy Services reportable segment with our Electric Generation reportable segment, collectively referred to as “Midstream & Marketing.” In accordance with GAAP, prior-period amounts have been restated to reflect these changes.

AmeriGas Propane derives its revenues principally from the sale of propane and related equipment and supplies to retail customers in all 50 states. UGI International derives its revenues principally from the distribution of LPG to retail customers in France and in northern, central and eastern European countries. In addition, UGI International operates natural gas marketing businesses in France, Belgium and the United Kingdom and markets natural gas and electricity in the Netherlands. Midstream & Marketing derives its revenues principally from the sale of natural gas and, to a lesser extent, electricity, LPG and fuel oil as well as revenues and fees from storage, pipeline transportation and natural gas production activities primarily in the Mid-Atlantic region of the U.S. Midstream & Marketing also derives revenues from the sale of electricity through PJM, a regional electricity transmission organization in the eastern U.S., and, to a lesser extent, also from contracting services provided by HVAC to customers in portions of eastern and central Pennsylvania. UGI Utilities derives its revenues principally from the sale and distribution of natural gas to customers in eastern and central Pennsylvania and, to a lesser extent, from the sale and distribution of electricity in two northeastern Pennsylvania counties.

Corporate & Other principally comprise (1) net expenses of UGI’s captive general liability insurance company and UGI’s corporate headquarters facility, and UGI’s unallocated corporate and general expenses and interest income. In addition, Corporate & Other includes net gains and losses on commodity and certain foreign currency derivative instruments not associated with current-period transactions (including such amounts attributable to noncontrolling interests) because such items are excluded from profit measures evaluated by our CODM in assessing our reportable segments’ performance or allocating resources. 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. We evaluate AmeriGas Propane’s performance principally based upon the Partnership’s earnings before interest expense, income taxes, depreciation and amortization as adjusted for the effects of gains and losses on commodity derivative instruments not associated with current-period transactions and other gains and losses that competitors do not necessarily have (“Partnership Adjusted EBITDA”). Although we use Partnership Adjusted EBITDA to evaluate AmeriGas Propane’s profitability, it should not be considered as an alternative to net income (as an indicator of operating performance) or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligations) and is not a measure of performance or financial condition under GAAP. Our definition of Partnership Adjusted EBITDA may be different

from that used by other companies. Our CODM evaluates the performance of our other reportable segments principally based upon their income before income taxes excluding gains and losses on commodity and certain foreign currency derivative instruments not associated with current-period transactions, as previously mentioned. No single customer represents more than ten percent of our consolidated revenues. In addition, all of our reportable segments' revenues, other than those of UGI International, are derived from sources within the United States, and all of our reportable segments' long-lived assets, other than those of UGI International, are located in the United States.

F-62

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

	Total	Elim- inations	AmeriGas Propane	UGI International	Midstream & Marketing	UGI Utilities	Corporate & Other (b)
<b>2017</b>							
Revenues from external customers	\$6,120.7	\$—	\$2,453.5	\$1,877.5	\$943.0	\$847.5	\$(0.8 )
Intersegment revenues	\$—	\$(222.7)(c)	\$—	\$—	\$178.2	\$40.1	\$4.4
Cost of sales	\$2,837.3	\$(218.3)(c)	\$1,002.9	\$935.3	\$856.7	\$367.3	\$(106.6 )
Operating income	\$1,004.2	\$0.3	\$355.3	\$195.7	\$139.2	\$228.3	\$85.4
Income from equity investees	\$4.3	\$—	\$—	\$—	\$4.3	(d)\$—	\$—
Losses on foreign currency contracts, net	\$(23.9 )	\$—	\$—	\$(0.1 )	\$—	\$—	\$(23.8 )
Loss on extinguishments of debt	\$(59.7 )	\$—	\$(59.7 )	\$—	\$—	\$—	\$—
Interest expense	\$(223.5 )	\$—	\$(160.2 )	\$(20.6 )	\$(2.1 )	\$(40.2 )	\$(0.4 )
Income before income taxes	\$701.4	\$0.3	\$135.4	\$175.0	\$141.4	\$188.1	\$61.2
Net income attributable to UGI	\$436.6	\$0.1	\$44.6	\$158.6	\$86.9	\$116.0	\$30.4
Depreciation and amortization	\$416.3	\$(0.2 )	\$190.5	\$117.4	\$35.4	\$72.3	\$0.9
Noncontrolling interests' net income	\$87.2	\$—	\$64.4	\$0.2	\$—	\$—	\$22.6
Partnership Adjusted EBITDA (a)			\$551.3				
Total assets	\$11,582.2	\$(51.5 )	\$4,069.4	\$3,132.0	\$1,165.5	\$2,994.0	\$272.8
Short-term borrowings	\$366.9	\$—	\$140.0	\$17.9	\$39.0	\$170.0	\$—
Capital expenditures (including the effects of accruals)	\$624.3	\$—	\$98.1	\$90.3	\$117.5	\$317.7	\$0.7
Investments in equity investees	\$59.1	\$—	\$—	\$8.1	\$51.0	\$—	\$—
Goodwill	\$3,107.2	\$—	\$2,001.3	\$912.2	\$11.6	\$182.1	\$—
<b>2016 (f)</b>							
Revenues from external customers	\$5,685.7	\$—	\$2,311.8	\$1,868.8	\$752.3	\$751.4	\$1.4
Intersegment revenues	\$—	\$(133.9)(c)	\$—	\$—	\$114.3	\$17.1	\$2.5
Cost of sales	\$2,437.5	\$(131.5)(c)	\$864.8	\$903.8	\$602.2	\$289.8	\$(91.6 )
Operating income	\$988.0	\$0.2	\$356.3	\$206.6	\$146.7	\$200.9	\$77.3
Loss from equity investees	\$(0.2 )	\$—	\$—	\$(0.2 )	\$—	\$—	\$—
Loss on extinguishments of debt	\$(48.9 )	\$—	\$(48.9 )	\$—	\$—	\$—	\$—
Interest expense	\$(228.9 )	\$—	\$(164.1 )	\$(24.4 )	\$(2.1 )	\$(37.6 )	\$(0.7 )
Income before income taxes	\$710.0	\$0.2	\$143.3	\$182.0	\$144.6	\$163.3	\$76.6
Net income attributable to UGI	\$364.7	\$0.1	\$43.2	\$111.6	\$87.1	\$97.4	\$25.3
Depreciation and amortization	\$400.9	\$(0.2 )	\$190.0	\$112.4	\$30.6	\$67.3	\$0.8
Noncontrolling interests' net income	\$124.1	\$—	\$75.9	\$—	\$—	\$—	\$48.2
Partnership Adjusted EBITDA (a)			\$543.0				
Total assets	\$10,847.2	\$(136.6)	\$4,071.8	\$2,865.1	\$1,038.2	\$2,743.1	\$265.6
Short-term borrowings	\$291.7	\$—	\$153.2	\$0.5	\$25.5	\$112.5	\$—

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Capital expenditures (including the effects of accruals)	\$604.6	\$—	\$101.7	\$99.9	\$140.4	\$262.5	\$0.1
Investments in equity investees	\$25.9	\$—	\$—	\$8.5	\$17.4	\$—	\$—
Goodwill	\$2,989.0	\$—	\$1,978.3	\$817.0	\$11.6	\$182.1	\$—

F-63

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Table of Contents

UGI Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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

	Total	Elim- inations	AmeriGas Propane	UGI International	Midstream & Marketing	UGI Utilities	Corporate & Other (b)
2015 (f)							
Revenues from external customers	\$6,691.1	\$—	\$2,885.3	\$ 1,808.5	\$ 1,012.3	\$981.9	\$3.1
Intersegment revenues	\$—	\$(213.6)(c)	\$—	\$—	\$ 151.3	\$59.7	\$2.6
Cost of sales	\$3,736.5	\$(209.8)(c)	\$1,340.0	\$ 1,120.0	\$854.6	\$510.8	\$120.9
Operating income (loss)	\$834.9	\$(0.9 )	\$427.6	\$ 112.8	\$ 182.6	\$241.7	\$(128.9 )
Loss from equity investees	\$(1.2 )	\$—	\$—	\$(1.2 )	\$—	\$—	\$—
Interest expense	\$(241.9 )	\$—	\$(162.8 )	\$(35.2 )	\$(2.1 )	\$(41.1 )	\$(0.7 )
Income (loss) before income taxes	\$591.8	\$(0.9 )	\$264.8	\$ 76.4	\$ 180.5	\$200.6	\$(129.6 )
Net income (loss) attributable to UGI	\$281.0	\$(0.6 )	\$61.0	\$ 52.7	\$ 107.5	\$121.1	\$(60.7 )
Depreciation and amortization	\$374.1	\$—	\$194.9	\$ 86.9	\$28.0	\$63.5	\$0.8
Noncontrolling interests' net income (loss)	\$133.0	\$—	\$167.9	\$(0.1 )	\$—	\$—	\$(34.8 )
Partnership Adjusted EBITDA (a)			\$619.2				
Total assets	\$10,514.2	\$(90.4 )	\$4,128.4	\$ 2,860.9	\$969.6	\$2,506.0	\$139.7
Short-term borrowings	\$189.9	\$—	\$68.1	\$ 0.6	\$49.5	\$71.7	\$—
Capital expenditures (including the effects of accruals)	\$475.4	\$—	\$102.0	\$ 87.5	\$88.0	\$197.7	\$0.2
Investments in equity investees	\$16.2	\$—	\$—	\$ 9.8	\$6.4	\$—	\$—
Goodwill	\$2,953.4	\$—	\$1,956.0	\$803.7	\$11.6	\$182.1	\$—

(a) The following table provides a reconciliation of Partnership Adjusted EBITDA to AmeriGas Propane income before income taxes:

	2017	2016	2015
Partnership Adjusted EBITDA	\$551.3	\$543.0	\$619.2
Depreciation and amortization	(190.5 )	(190.0 )	(194.9 )
Interest expense	(160.2 )	(164.1 )	(162.8 )
Loss on extinguishments of debt	(59.7 )	(48.9 )	—
MGP environmental accrual	(7.5 )	—	—
Noncontrolling interest (i)	2.0	3.3	3.3
Income before income taxes	\$135.4	\$143.3	\$264.8

(i) Principally represents the General Partner's 1.01% interest in AmeriGas OLP.

(b) Includes net pre-tax gains (losses) on commodity and certain foreign currency derivative instruments not associated with current-period transactions (including such amounts attributable to noncontrolling interests) totaling \$82.0, \$91.6 and \$(119.1) in Fiscal 2017, Fiscal 2016 and Fiscal 2015, respectively. Fiscal 2017 also includes a pre-tax loss of \$11.0 associated with the impairment of a cost basis investment (see Note 2).

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

(d) Represents AFUDC associated with PennEast (see Note 2).

(e) Includes pre-tax costs of \$10.3 associated with an extinguishment of debt (see Note 5).

(f)

Restated to reflect the current-year changes in the presentation of our UGI International and Midstream & Marketing reportable segments.

F-64

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Table of Contents

## UGI CORPORATION

## SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF REGISTRANT (PARENT COMPANY)

## BALANCE SHEETS

(Millions of dollars)

	September 30,	
	2017	2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$15.8	\$4.8
Accounts receivable – related parties	4.5	9.2
Prepaid expenses and other current assets	15.6	5.0
Total current assets	35.9	19.0
Property, plant and equipment, net	0.4	—
Investments in subsidiaries	3,119.7	2,825.7
Other assets	82.0	69.8
Total assets	\$3,238.0	\$2,914.5
<b>LIABILITIES AND COMMON STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts and notes payable	\$12.3	\$11.4
Accrued liabilities	5.9	4.4
Total current liabilities	18.2	15.8
Noncurrent liabilities	56.5	54.6
Commitments and contingencies (Note 1)		
Common stockholders' equity:		
Common Stock, without par value (authorized – 450,000,000 shares; issued – 173,987,691 and 173,894,141 shares, respectively)	1,188.6	1,201.6
Retained earnings	2,106.7	1,834.1
Accumulated other comprehensive loss	(93.4 )	(154.7 )
Treasury stock, at cost	(38.6 )	(36.9 )
Total common stockholders' equity	3,163.3	2,844.1
Total liabilities and common stockholders' equity	\$3,238.0	\$2,914.5

## Note 1 — Commitments and Contingencies:

In addition to the guarantees of Flaga's debt as described in Note 5 to Consolidated Financial Statements, at September 30, 2017, UGI Corporation had agreed to indemnify the issuers of \$88.9 of surety bonds issued on behalf of certain UGI subsidiaries. UGI Corporation is authorized to guarantee up to \$500.0 of obligations to suppliers and customers of Energy Services, LLC and subsidiaries of which \$432.5 of such obligations were outstanding as of September 30, 2017. UGI Corporation has guaranteed the floating to fixed rate interest rate swaps at Flaga, which obligations totaled \$0.6 at September 30, 2017.

Table of Contents

## UGI CORPORATION

## SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF REGISTRANT (PARENT COMPANY)

## STATEMENTS OF INCOME

(Millions of dollars, except per share amounts)

	Year Ended September 30,		
	2017	2016	2015
Revenues	\$—	\$—	\$—
Costs and expenses:			
Operating and administrative expenses	46.3	45.7	48.7
Other operating income, net (a)	(45.9 )	(45.3 )	(48.5 )
	0.4	0.4	0.2
Operating loss	(0.4 )	(0.4 )	(0.2 )
Intercompany interest income	—	0.1	0.1
Loss before income taxes	(0.4 )	(0.3 )	(0.1 )
Income tax (benefit) expense	(5.7 )	(4.0 )	1.9
Income (loss) before equity in income of unconsolidated subsidiaries	5.3	3.7	(2.0 )
Equity in income of unconsolidated subsidiaries	431.3	361.0	283.0
Net income attributable to UGI Corporation	\$436.6	\$364.7	\$281.0
Other comprehensive income (loss)	1.3	(1.1 )	0.1
Equity in other comprehensive income (loss) of unconsolidated subsidiaries	60.0	(39.0 )	(93.5 )
Comprehensive income attributable to UGI Corporation	\$497.9	\$324.6	\$187.6
Earnings per common share attributable to UGI Corporation stockholders:			
Basic	\$2.51	\$2.11	\$1.62
Diluted	\$2.46	\$2.08	\$1.60
Weighted - average common shares outstanding (thousands):			
Basic	173,662	173,154	173,115
Diluted	177,159	175,572	175,667

UGI provides certain financial and administrative services to certain of its subsidiaries. UGI bills these subsidiaries monthly for all direct expenses incurred by UGI on behalf of its subsidiaries as well as allocated shares of indirect corporate expense incurred or paid with respect to services provided by UGI. The allocation of indirect UGI corporate expenses to certain of its subsidiaries utilizes a weighted, three-component formula comprising revenues, operating expenses, and net assets employed and considers the relative percentage of such items for each subsidiary to the total of such items for all UGI operating subsidiaries for which general and administrative services are provided. Management believes that this allocation method is reasonable and equitable to its subsidiaries. These billed expenses are classified as “Other operating income, net” in the Statements of Income above.

Table of Contents

## UGI CORPORATION

## SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF REGISTRANT (PARENT COMPANY)

## STATEMENTS OF CASH FLOWS

(Millions of dollars)

	Year Ended September 30,		
	2017	2016	2015
NET CASH PROVIDED BY OPERATING ACTIVITIES (a)	\$253.2	\$195.6	\$277.2
CASH FLOWS FROM INVESTING ACTIVITIES:			
Expenditures for property, plant and equipment	(0.4 )	—	—
Net investments in unconsolidated subsidiaries	(40.7 )	(8.9 )	(104.8 )
Net cash used by investing activities	(41.1 )	(8.9 )	(104.8 )
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment of dividends on Common Stock	(168.9 )	(160.7 )	(153.5 )
Repurchases of UGI Common Stock	(43.3 )	(47.6 )	(34.1 )
Issuances of Common Stock	11.0	24.5	16.8
Other	0.1	—	(0.5 )
Net cash used by financing activities	(201.1 )	(183.8 )	(171.3 )
Cash and cash equivalents increase	\$11.0	\$2.9	\$1.1
Cash and cash equivalents:			
End of year	\$15.8	\$4.8	\$1.9
Beginning of year	4.8	1.9	0.8
Increase	\$11.0	\$2.9	\$1.1

(a) Includes dividends received from unconsolidated subsidiaries of \$241.9, \$193.1 and \$271.6 for the years ended September 30, 2017, 2016 and 2015, respectively.

Table of Contents

UGI CORPORATION AND SUBSIDIARIES  
 SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS  
 (Millions of dollars)

	Balance at beginning of year	Charged (credited) to costs and expenses	Other	Balance at end of year
Year Ended September 30, 2017				
Reserves deducted from assets in the consolidated balance sheet:				
Allowance for doubtful accounts	\$ 27.3	\$ 30.7	\$(31.1)(1)	\$ 26.9
Other reserves:				
Deferred tax assets valuation allowance	\$ 114.3	\$ (7.6 )	\$ 0.4 (3)	\$ 107.1
Year Ended September 30, 2016				
Reserves deducted from assets in the consolidated balance sheet:				
Allowance for doubtful accounts	\$ 29.7	\$ 21.7	\$(24.1)(1)	\$ 27.3
Other reserves:				
Deferred tax assets valuation allowance	\$ 131.3	\$ (5.8 )	\$(8.8 )(3) (2.4 )(4)	\$ 114.3
Year Ended September 30, 2015				
Reserves deducted from assets in the consolidated balance sheet:				
Allowance for doubtful accounts	\$ 39.1	\$ 31.6	\$(39.6)(1) (1.4 )(2)	\$ 29.7
Other reserves:				
Deferred tax assets valuation allowance	\$ 59.2	\$ 5.1	\$ 66.1 (3) (2.6 )(4) 3.5 (5)	\$ 131.3

(1)Uncollectible accounts written off, net of recoveries.

(2)Effects of currency exchange.

(3)Foreign tax credit valuation allowance adjustment.

(4)Decrease in unusable foreign operating loss carryforwards.

(5)Acquisitions