

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

Amendment No. 4 to  
FORM S-4  
REGISTRATION STATEMENT  
Under  
The Securities Act of 1933

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STAR GAS PARTNERS, L.P.  
(Exact name of registrant as specified in its charter)  
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Delaware (State or other jurisdiction of incorporation or organization)	5984  (Primary Standard Industrial Classification Code Number)	06-1437793  (I.R.S. Employer Identification No.)
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2187 Atlantic Street  
P.O. Box 120011  
Stamford, CT 06912-0011  
(203) 328-7300  
(Address, including zip code, and telephone number, including area code, of  
registrant's principal executive offices)

-----  
JOSEPH P. CAVANAUGH  
President  
Star Gas Corporation  
2187 Atlantic Street  
P.O. Box 120011  
Stamford, CT 06912-0011  
(203) 328-7300  
(Name, address, including zip code, and telephone number, including area code,  
of agent for service)

-----  
Copies to:

Andrews & Kurth L.L.P. 805 Third Avenue New York, New York 10022 (212) 850-2800 Attn: Michael Rosenwasser, Esq.	Phillips Nizer Benjamin Krim & Ballon LLP 666 Fifth Avenue, 28th Floor New York, New York 10103-0084 (212) 977-9700 Attn: Alan Shapiro, Esq.	Baker & Botts, L.L.P. One Shell Plaza 910 Louisiana Houston, Texas 77002-4995 (713) 229-1330 Attn: R. Joel Swanson, Esq.
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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement and upon holding of the meetings of securityholders of the Registrant and Petroleum Heat and Power Co., Inc. described herein.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act

registration statement number of the earlier effective registration statement for the same offering. [\_]

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment specifically stating that the Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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++++  
+The information in this joint proxy statement/prospectus is not complete and +  
+may be changed. We may not sell these securities until the registration +  
+statement filed with the Securities and Exchange Commission is effective. +  
+This joint proxy statement/prospectus is not an offer to sell these +  
+securities and it is not soliciting an offer to buy these securities in any +  
+state where the offer or sale is not permitted. +  
++++

Subject to Completion, dated February 9, 1999

Star Gas Partners, L.P.  
and  
Petroleum Heat and Power Co., Inc.

This joint proxy statement and prospectus describes Star Gas Partners, L.P.'s proposed acquisition of Petroleum Heat and Power Co., Inc., and related matters. The transaction is structured with the intent to increase the cash flow of Star Gas Partners and to result in Petro common stockholders owning equity in a financially stronger company with growth opportunities.

The date, times and place of the meetings are as follows:

Star Gas Partners  
Unitholders Meeting:  
Tuesday, March 16, 1999  
10:00 a.m. EST  
Chase Manhattan Bank  
270 Park Avenue, 11th  
Floor  
New York, New York

If the transaction is completed, Petro will be a subsidiary of Star Gas Partners. The common unitholders of Star Gas Partners will retain their units, although their rights and interests will be modified by the transaction. Petro public common stockholders will receive .11758 of a senior subordinated unit representing limited partner interests in Star Gas Partners for each share of common stock that they own. The senior subordinated units have been approved for listing on the New York Stock Exchange under the symbol "SGH."

Petro Stockholders  
Meeting:  
Tuesday, March 16, 1999  
11:00 a.m. EST  
Chase Manhattan Bank  
270 Park Avenue, 11th  
Floor  
New York, New York

The record date for both meetings is January 29, 1999.

This proxy statement constitutes the notice of a special meeting required under Minnesota law. If the transaction is completed, Petro common stock-holders who do not vote in favor of the transaction and who strictly comply with the applicable sections of the Minnesota Business Corporation Act will be entitled to statutory

This proxy statement is

furnished to the common unitholders of Star Gas Partners and the common stockholders of Petro for the solicitation of proxies to vote on the transaction. The transaction cannot be completed unless it is approved by a majority of all Star Gas Partners common units and a majority of the shares of Petro Class A common stock. If you fail to vote by proxy or in person, it will have the same effect as a vote against the transaction. Please vote by completing and mailing the enclosed proxy card.

dissenters' appraisal rights. This proxy statement is also the prospectus of Star Gas Partners for the resale, by persons who may be deemed affiliates of Petro, of limited partner interests received in the transaction.

You should carefully consider each of the factors described under "Risk Factors," starting on page 22 of this proxy statement.

-----  
 Joseph P. Cavanaugh  
 President Star Gas  
 Corporation

Irik P. Sevin Chairman of  
 the Board and Chief  
 Executive Officer  
 Petroleum Heat and Power  
 Co., Inc.

The Securities and Exchange Commission has not approved or disapproved these securities or determined if this joint proxy statement/prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Joint proxy statement/prospectus dated \_\_\_\_\_, 1999, and first mailed to unitholders and stockholders on \_\_\_\_\_, 1999.

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Appendix A--Application for Transfer of Units..... App-1  
Annexes

- A Merger Agreement
- B Exchange Agreement
- C Amended and Restated Partnership Agreement
- D Opinion of A.G. Edwards & Sons Inc.
- E Opinion of Dain Rauscher Wessels
- F Copy of Sections 302A.471 and 302A.473 of Minnesota Business Corporation Act
- G Calculation of Pro Forma Available Cash from Operating Surplus

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QUESTIONS AND ANSWERS

Q: What is being proposed?

A: Both Star Gas Partners common unitholders and Petro common stockholders are voting on Star Gas Partners' acquisition of Petro. Petro currently is Star Gas Partners' largest equity owner and the parent of its current general partner.

Q: What are Star Gas Partners' reasons for the transaction?

A: Petro is the largest home heating oil distributor in the country and has been a principal consolidator of that highly fragmented industry. Star Gas Partners believes Petro's strong position in the home heating oil industry will provide Star Gas Partners with attractive acquisition and expansion opportunities. In addition, the acquisition of Petro has been structured with the intent of providing an increase in Star Gas Partners' cash flow. Based on this expectation, the minimum quarterly distribution will increase from \$0.55 to \$0.575 per unit, or from \$2.20 to \$2.30 on a yearly basis, upon completion of the transaction.

Q: What are Petro's reasons for the transaction?

A: Petro does not have the financial flexibility to fully capitalize upon its acquisition, operating and corporate-branding opportunities. This transaction will recapitalize Petro and the resulting lower cost of capital will allow Petro to grow.

Q: What are the proposals the Star Gas Partners common unitholders will vote on?

A: Star Gas Partners common unitholders are voting on three proposals:

- . The proposal to acquire Petro through a merger and an exchange of equity.

. The proposal to amend the partnership agreement to facilitate the transaction.

. The proposal to elect a new general partner.

Q: Which parts of the transaction are the Petro common stockholders considering?

A: Petro common stockholders are only voting on Star Gas Partners' acquisition of Petro.

Q: When is the transaction expected to occur?

A: Star Gas Partners and Petro anticipate completing the transaction in March 1999.

Q: What do I need to do right now?

A: Return the signed proxy card in the enclosed return envelope as soon as possible. For more information on voting please call our proxy solicitor, Morrow & Co., at 1(800) 566-9061.

Q: What is the recommendation of the Star Gas Corporation board of directors?

A: Based on the recommendation of a special committee of the Star Gas Corporation board of directors, the Star Gas Corporation board of directors unanimously recommends that the Star Gas Partners common unitholders vote FOR each of the proposals.

Q: What is the recommendation of the Petro board of directors?

A: The Petro board of directors unanimously recommends that Petro common stockholders vote FOR the proposal to be acquired by Star Gas Partners.

Q: What do I do with my certificates?

A: Star Gas Partners common unitholders should hold their unit certificates. Common units will continue to be listed and traded on the New York Stock Exchange. After the transaction is approved, Petro common stockholders will receive written instructions on how to deliver their Petro stock certificates in exchange for senior subordinated units.

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#### SUMMARY

This summary highlights selected information from this document and does not contain all of the information that is important to you. To fully understand the transaction, and for a more complete description of legal terms, you should read carefully this entire document and the documents to which we have referred you. See "Where You Can Find More Information" (page 185). A glossary of terms used in this proxy statement begins on page 198.

#### Parties

Star Gas Partners. Star Gas Partners is primarily a retail distributor of propane and related supplies and equipment to residential, commercial, industrial, agricultural and motor fuel customers. Propane is used primarily as fuel for space and water heating and cooking by Star Gas Partners' residential and commercial customers, who are the largest portion of its customer base. Star Gas Partners is the eighth largest retail propane distributor in the United States, serving approximately 166,000 customers from 74 branch locations in 13 states in the Midwest and Northeast. In addition to its retail business, Star Gas Partners serves approximately 30 wholesale customers from its wholesale operation in southern Indiana.

The executive offices of Star Gas Partners are located at 2187 Atlantic Street, Stamford, Connecticut 06902. The telephone number is (203) 328-7300.

Petro. Petro is primarily a retail distributor of home heating oil in the Northeast and Mid-Atlantic states. Petro is the largest distributor of home heating oil in the United States and serves approximately 340,000 customers from 24 branch locations. To a limited extent, Petro also markets other

petroleum products, including diesel fuel and gasoline, to commercial customers.

Petro's executive offices are located at 2187 Atlantic Street, Stamford, Connecticut 06902. The telephone number is (203) 325-5400.

Relationship of the Parties. Petro and Star Gas Partners are already closely-related. Star Gas Partners' current general partner, Star Gas Corporation, is a wholly-owned subsidiary of Petro. Petro also owns all of Star Gas Partners' outstanding subordinated units, which represent an aggregate 40.5% equity interest in Star Gas Partners. Moreover all of the directors of Petro are also directors of Star Gas Corporation. As a result, Petro controls Star Gas Partners and has an interest in making the transaction more beneficial to Petro.

In order to protect the interests of the Star Gas Partners common unitholders, the Star Gas Corporation board appointed a special committee consisting of the two directors who were not also directors of Petro to negotiate the transaction on behalf of the Star Gas Partners common unitholders. Independent legal counsel represented the special committee in the negotiations. These two directors each received additional compensation of \$40,000.

You should also know that some of the directors of Petro have interests in the transaction that are different from, and in conflict with, the interests of Petro's public common stockholders. These directors are receiving consideration in the transaction that is different from that of Petro's public common stockholders. All of these conflicts of interest are discussed more fully below.

#### The Transaction

The transaction has four important parts:

- . the merger of the two entities,
- . raising the money to pay down Petro's debt and redeem Petro's preferred stock,
- . the election of a new general partner for Star Gas Partners and
- . the amendment of the Star Gas Partners partnership agreement.

The Merger (See page 98)

The acquisition of Petro by Star Gas Partners will be accomplished through:

- (1) a merger involving Petro and a wholly-owned subsidiary of Star Gas Partners and
- (2) an exchange by affiliates of Petro of their Petro common stock for Star Gas Partners senior subordinated units, junior subordinated units and general partner units.

Petro will become a wholly-owned indirect subsidiary of Star Gas Partners as a result of these steps.

What a Petro Common Stockholder Will Receive in the Merger

For each share of common stock, a Petro common stockholder will receive:

- . .11758 of a senior subordinated unit of limited partner interests in Star Gas Partners and
- . a check in payment for any fractional units based on the market value of senior subordinated units.

For example, if you own 100 shares of common stock, you will receive 11 senior subordinated units and a check for your fractional unit.

The merger will be a taxable transaction to a Petro common stockholder to the extent of the difference between the value of the senior subordinated units received and the federal income tax basis that he had in the shares of Petro common stock that are exchanged.

What Affiliates Will Receive in the Exchange

- . Irik P. Sevin, Audrey L. Sevin and Hanseatic Corp. and Hanseatic Americas LDC will exchange some of their Petro common stock for the ownership of



Star Gas LLC, a new company that will become the new general partner of Star Gas Partners. Irik P. Sevin and Audrey L. Sevin are officers, directors and stockholders of Petro and officers and directors of the general partner of Star Gas Partners. The Hanseatic companies are stockholders of Petro and affiliates of Wolfgang Traber and Paul Biddelman, who are directors of Petro and the general partner of Star Gas Partners.

- . Star Gas LLC will exchange the shares of Petro common stock for Star Gas Partners general partner units and Irik P. Sevin, Audrey L. Sevin and the Hanseatic companies will exchange their remaining shares of Petro common stock for Star Gas Partners junior subordinated units.
- . For each share of common stock, Star Gas LLC will receive .14318 general partner units and Irik P. Sevin, Audrey L. Sevin, and the Hanseatic companies will receive .14318 junior subordinated units which is a higher exchange rate than that received by Petro common stockholders who receive senior subordinated units. This exchange rate is higher because

--the Star Gas Partners junior subordinated units and general partner

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units will not be entitled to distributions until the senior subordinated units receive the full minimum quarterly distribution; and

--the Star Gas Partners junior subordinated units and general partner units have not been registered and will not be publicly traded.

- . Other affiliates of Petro will contribute shares of Petro common stock to Star Gas Partners in exchange for Star Gas Partners senior subordinated units at the same exchange rate as the Petro common stockholders.
- . Petro retained Dain Rauscher Wessels to determine the fairness of the transaction to its public common stockholders, from a financial point of view. In performing its financial analysis of the transaction, Dain Rauscher Wessels calculated implied merger values per Petro share. According to these calculations, the implied merger value per Petro share for the recipients of general partner units and junior subordinated units is \$1.72, and the implied merger value per Petro share for the recipients of senior subordinated units is \$1.95. Based upon such values, affiliates who currently own approximately 44.7% of the shares of Petro common stock will receive approximately 43.1% of the aggregate value of the Star Gas Partners units being issued to the Petro common stockholders in the transaction. The Petro public common stockholders who currently own approximately 55.3% of the shares of Petro common stock will receive approximately 56.9% of the aggregate value of the Star Gas Partners units being issued to the Petro common stockholders in the transaction. The implied merger values calculated by Dain Rauscher Wessels do not constitute an opinion as to what the value of the senior subordinated units, junior subordinated units and general partner units will be when issued to Petro common stockholders or the price at which the senior subordinated units will trade after the transaction.
- . All of Petro's affiliates will exchange their Petro common stock without realizing a taxable gain or loss. However, the transaction will be taxable to the Petro public common stockholders. We chose this tax structure to minimize the tax effects of the transaction on Petro. The tax structure is also based on the assumption that Petro affiliates would prefer not to realize a taxable gain, while most Petro public common stockholders generally have a higher tax basis and would prefer to realize a taxable loss.

#### Conditions to the Merger and the Exchange

In order for the merger and the exchange to occur, several conditions must be met. The following are three key conditions:

- . A majority of the Petro common stockholders and the Star Gas Partners common unitholders must approve each of the proposals submitted for their vote;
- . An equity offering by Star Gas Partners and a debt offering by Petro must be completed; and

. Petro must meet the financial tests in the merger agreement.

#### Dissenters' Rights

Petro common stockholders have the right to dissent and obtain payment for the "fair value" of their shares if the merger occurs.

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Petro common stockholders who wish to exercise dissenters' rights must comply fully with the requirements of the Minnesota Business Corporation Act. Accordingly, Petro urges its common stockholders wishing to dissent to read carefully "Proxy Solicitations--The Special Meeting--Dissenters' Rights" and "Dissenters' Rights" in this proxy statement and Annex F and to consult their own legal advisors.

Failure to follow the procedures in Annex F may result in a termination or loss of dissenters' rights under the Minnesota Business Corporation Act.

Star Gas Partners' common unitholders do not have dissenters' rights.

Raising the Money to Pay Down Petro's Debt and Redeem Petro's Preferred Stock (See page 99)

An integral element of the transaction is the refinancing of Petro's outstanding debt and preferred stock, which will substantially reduce Petro's ongoing borrowing costs.

- . Star Gas Partners will offer for sale to the public approximately 8.9 million common units, the net proceeds of which are estimated to be \$159.9 million.
- . Petro will sell approximately \$90.0 million of notes, the net proceeds of which are estimated to be \$87.9 million. We expect that Star Gas Partners and some of its subsidiaries will guarantee the notes.

New General Partner (See page 109)

The new general partner of Star Gas Partners will be Star Gas LLC. The directors of Star Gas LLC will be identical to the existing Star Gas Corporation directors as of the date of this proxy statement, except that, at her request, one of the current directors will withdraw as a director after the transaction as a result of additional duties associated with a new job. That director will be replaced by a director selected by the Star Gas LLC board of directors. The new director will not be an officer or employee of Star Gas LLC or any of its affiliates.

Amendments to the Star Gas Partners Partnership Agreement (See page 112)

In order to complete the steps of the transaction described in this proxy statement, the current partnership agreement of Star Gas Partners must be amended. The primary amendments that affect Star Gas Partners unitholders will:

- . increase the minimum quarterly distribution per unit from \$0.55 to \$0.575, or \$2.20 to \$2.30 on a yearly basis;
- . authorize the issuance of the senior subordinated units and junior subordinated units, provide them with a combined class vote on specified matters and establish financial benchmarks that Star Gas Partners must satisfy to make distributions to these unitholders;
- . provide that the general partner units and junior subordinated units will receive distributions only after the common units and senior subordinated units have received the full minimum quarterly distribution;
- . extend the earliest date upon which the subordination period can expire from January 1, 2001 to October 1, 2002, during which time the common units have priority over distributions to the other classes of units;

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- . authorize the issuance of an additional 909,000 senior subordinated units to holders of Star Gas Partners senior subordinated units, junior subordinated units and general partner units if Petro meets specified financial goals;
- . authorize the issuance of Star Gas Partners common units in the equity offering; and
- . reallocate the incentive distribution rights, which are the rights to receive a greater percentage of distributions once specified target levels have been met, from the general partner to the holders of the Star Gas Partners senior subordinated units, junior subordinated units and general partner units.

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[Chart depicting Star Gas Current Organization]

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[Chart depicting Star Gas Partners Organization Immediately Following Transaction]

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Description of Star Gas Partners Units After Amendment of the Partnership Agreement

The following summarizes the provisions of the Star Gas Partners amended and restated partnership agreement that govern the amount, timing and priority of distributions on the common units, senior subordinated units, junior subordinated units and general partner units.

- |  |  |
|--|--|
| Distributions of available cash.....<br>(See page 133) | <ul style="list-style-type: none"> <li>. Star Gas Partners intends to distribute, to the extent there is sufficient available cash, at least a minimum quarterly distribution of \$0.575 per unit, or \$2.30 per unit on a yearly basis.</li> <li>. "Available cash" for any quarter consists generally of all cash on hand at the end of that quarter, as adjusted for reserves. The general partner has broad discretion in establishing reserves.</li> <li>. In general, available cash will be distributed per quarter based on the following priorities.           <ul style="list-style-type: none"> <li>First, to the common units until each has received \$0.575, plus any arrearages from prior quarters.</li> <li>Second, to the senior subordinated units until each has received \$0.575.</li> <li>Third, to the junior subordinated units and general partner units until each has received \$0.575.</li> <li>Finally, after each unit has received \$0.575, available cash will be distributed proportionately to all units until target levels are met.</li> </ul> </li> <li>. If distributions of available cash exceed target levels greater than \$0.604, the senior subordinated units,</li> </ul> |
|--|--|

junior subordinated units and general partner units will receive incentive distributions as described below.

- Limitations and prohibitions on distributions..... (See page 139)
- . Distributions will not be made on the senior subordinated units, junior subordinated units or general partner units for any quarter in Star Gas Partners' fiscal year 1999, which ends on September 30, 1999.
  - . Distributions may be made on the senior subordinated units, junior subordinated units and general partner units beginning with Star Gas Partners' fiscal year 2000, which begins on October 1, 1999. Any distributions made on these units depends on the amount of available cash generated by Star Gas Partners after October 1, 1999.
- Timing of distributions..... (See page 134)
- . Star Gas Partners makes distributions approximately 45 days after March 31, June 30, September 30 and
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- December 31 to unitholders on the applicable record date.
- Subordination period..... (See page 135)
- . The subordination period will end once Star Gas Partners meets the financial tests in the amended and restated partnership agreement, but it generally cannot end before October 1, 2002. However, if the general partner is removed under some circumstances, the subordination period will end.
  - . When the subordination period ends, all senior subordinated units and junior subordinated units will convert into Class B common units on a one-for-one basis, and each common unit will be redesignated as a Class A common unit.
  - . The main differences between the Class A common units and Class B common units are that the Class B common units will continue to have the right to receive incentive distributions and additional units as described below.
- Incentive distributions..... (See page 136)
- If quarterly distributions of available cash exceed target levels, the senior subordinated units, junior subordinated units and general partner units will receive an increased percentage of distributions, resulting in their receiving a greater amount on a per unit basis than the common units.
- Additional senior subordinated units..... (See page 140)
- Up to an additional 909,000 senior subordinated units will be issued proportionately to holders of senior subordinated units, junior subordinated units and general partner units, but only if Petro achieves the financial goals in the amended and restated partnership agreement during the five-year period following completion of the transaction.

units..... "SGU"

Senior subordinated units..... "SGH"

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#### Special Factors

Potential Advantages to Star Gas Partners Common Unitholders (See page 63)

The following are the potential advantages of the transaction to Star Gas Partners common unitholders:

- . The minimum quarterly distribution per unit will increase from \$0.55 to \$0.575, or \$2.20 to \$2.30 on a yearly basis.
- . The transaction has been structured with the intent to increase the amount of cash available for distribution to Star Gas Partners unitholders. If this expectation is realized, it will provide Star Gas Partners unitholders with greater assurance of receiving the minimum quarterly distribution and an improved possibility of future distribution increases.
- . The acquisition of Petro should improve Star Gas Partners' growth prospects by providing attractive acquisition and expansion opportunities.
- . Petro common stockholders will receive subordinated limited partner interests that entitle them to receive distributions only after the Star Gas Partners common unitholders receive their full minimum quarterly distribution.
- . The earliest date on which the distribution on the common units would stop being senior to the distribution on the subordinated limited partner interests will be extended 21 months to October 1, 2002.
- . The transaction will increase Star Gas Partners' market capitalization and should provide greater common unit market liquidity, investment community awareness and ability to attract securities analyst research coverage.

Potential Disadvantages and Risks to Star Gas Partners Common Unitholders (See pages 22 and 64)

The following are the potential disadvantages and risks of the transaction to Star Gas Partners common unitholders:

- . Petro has a history of operational and financial difficulties, including high debt leverage and recent substantial net losses.
- . The success of the transaction depends upon Star Gas Partners' ability to continue to:
  - -- successfully acquire home heating oil businesses at attractive prices;
  - -- complete Petro's restructuring program to reduce Petro's customer attrition rate; and
  - -- increase Petro's profit margins on a per gallon basis.
- . Star Gas Partners is making a large investment in a business that is more sensitive to temperature levels than its propane operations. Home heating oil is used almost exclusively for heating, while propane is often used for purposes other than heating.
- . The home heating oil industry is not a growth industry as a result of increased competition from alternative energy sources.
- . The proportion of common units to total limited partner interests will increase from 60.5% to 79.9%. Therefore, the likelihood that Star Gas Partners common units will receive the full minimum quarterly distribution will be reduced.

- . The number of Star Gas Partners common units will increase from approximately 3.9 million to 12.9 million, representing potential significant dilution.
- . Petro's income, unlike the income from Star Gas Partners' propane operations, will be subject to corporate tax before any distributions.
- . The ratio of taxable income to cash distributions to be made to the existing Star Gas Partners common unitholders will increase over time at a greater rate than if the transaction does not occur, and dividend and interest income from Petro cannot be offset with past or future losses generated by Star Gas Partners' propane operations.

Potential Advantages to Petro's Common Stockholders (See page 77)

The following are the potential advantages of the transaction to Petro common stockholders:

- . This transaction will provide Petro with the financial structure to implement its growth-through-acquisition strategy and invest in its operating and corporate- branding opportunities.
- . Petro's market valuation should improve when it becomes part of a publicly-traded limited partnership. Publicly-traded limited partnerships are cash flow oriented and are valued primarily on a cash distribution basis. We believe Petro's focus on cash flow is well suited for a limited partnership structure. We also believe Star Gas Partners will have greater investment community awareness than Petro. Currently, because it is the only publicly-traded home heating oil company, Petro has limited securities analyst research coverage.
- . You are more likely to receive cash distributions as a holder of a Star Gas Partners senior subordinated unit than you are to receive dividends as a holder of Petro common stock.
- . You will receive senior subordinated units that must receive the minimum quarterly distribution before any payments are made on the junior subordinated units and the general partner units.
- . The senior subordinated units will have the right to receive incentive distributions. If Star Gas Partners generates cash above specified target levels, the holders of Star Gas Partners senior subordinated units may receive greater cash distributions than the Star Gas Partners common unitholders.
- . If Petro achieves its financial goals within the five-year period after closing of the transaction, the holders of Star Gas Partners senior subordinated units, junior subordinated units and general partner units will receive up to an additional 909,000 senior subordinated units. This incentive allows Petro common stockholders to continue to participate in Petro's future performance.

Potential Disadvantages and Risks to Petro's Common Stockholders (See pages 27 and 78)

The following are the potential disadvantages and risks of the transaction to Petro common stockholders:

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- . Star Gas Partners unitholders have substantially different, and probably fewer, legal rights than Petro common stockholders.
- . There is no current trading market for the senior subordinated units. Although the senior subordinated units have been approved for listing on the New York Stock Exchange, there is no assurance that any active trading market will develop. It is expected that the senior subordinated units will trade at a lower price than the common units.
- . The senior subordinated units are not eligible to receive distributions for any quarter of Star Gas Partners fiscal year 1999.
- . Distributions on the senior subordinated units, junior subordinated units

and general partner units are not guaranteed. Star Gas Partners will make these distributions only after it has made the full minimum quarterly distribution on the common units. Further, distributions on the senior subordinated units, junior subordinated units and general partner units are generally limited to available cash generated after the closing of the transaction. Therefore, there is significant uncertainty as to the amount and timing of these distributions.

- . Star Gas LLC, the new general partner of Star Gas Partners, will have conflicts of interest typical of a general partner in a publicly-traded limited partnership. These conflicts are different from any conflicts of interest that may exist for the Petro board of directors.
- . Like Petro's home heating oil operations, Star Gas Partners' propane operations are negatively affected by warm weather during the winter months.
- . Star Gas Partners may face difficulties in the future in making attractive acquisitions in the propane industry because of the highly competitive nature of the industry.
- . Tax-exempt entities, regulated investment companies or foreign taxpayers may determine that holding an interest in Star Gas Partners is unattractive from a tax perspective. If some of these investors sell their senior subordinated units following the transaction, the market price of the senior subordinated units could fall substantially.

Recommendations of the Special Committee and Star Gas Corporation Board of Directors and Opinion of A.G. Edwards & Sons, Inc. (See pages 22, 63 and 66)

A.G. Edwards & Sons, Inc. has served as independent financial advisor to the special committee. They have rendered an opinion to the special committee that the transaction is fair, from a financial point of view, to the Star Gas Partners public common unitholders. The A.G. Edwards opinion is attached as Annex D to this proxy statement. Star Gas Partners common unitholders and Petro common stockholders are urged to read the opinion in its entirety for descriptions of the procedures followed, matters considered and limitations on the analysis undertaken.

After considering the advice of its independent legal counsel and financial advisor, and based upon the A.G. Edwards opinion, the special committee believes that the transaction is fair to, and in the best interests of, the Star Gas Partners common unitholders who are not affiliated with Star Gas Corporation. The

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special committee, therefore, has recommended the transaction to the Star Gas Corporation board of directors. Based on this recommendation, the Star Gas Corporation board of directors unanimously recommends that Star Gas Partners common unitholders vote FOR each of the unitholders meeting proposals.

Recommendations of Petro Board of Directors and Opinion of Dain Rauscher Wessels (See pages 27, 77 and 80)

Dain Rauscher Wessels, a division of Dain Rauscher Incorporated, has rendered an opinion to the Petro board of directors that the consideration to be received in the merger by the Petro common stockholders not affiliated with Star Gas Corporation is fair, from a financial point of view, to unaffiliated Petro common stockholders. The Dain Rauscher Wessels opinion is attached as Annex E to this proxy statement. Star Gas Partners common unitholders and Petro common stockholders are urged to read the opinion in its entirety for descriptions of the procedures followed, matters considered and limitations on the analysis undertaken.

The Petro board of directors has determined that the transaction is fair and in the best interests of the Petro common stockholders and has approved the merger agreement and the exchange agreement. The Petro board of directors, therefore, unanimously recommends that Petro common stockholders vote FOR the proposal to be acquired by Star Gas Partners.

PaineWebber Incorporated has also acted as a financial advisor to Petro.

## Financial Information

## Estimated Sources and Uses of Funds of the Equity Offering and Debt Offering

The following table shows the estimated funds that Star Gas Partners will receive from a public offering of an estimated 8.9 million common units at an assumed public offering price of \$19.00 per unit. The exact number of common units that Star Gas Partners will issue will depend upon the market price of the common units at the time of the offering. For example, if the market price is less than \$19.00 per unit then Star Gas Partners will issue a greater number of units. This table also shows the estimated funds that Petro will receive from the sale of notes in the debt offering. The estimated sources and uses may change, depending on market conditions, results of operations and other factors.

(In thousands)

## Sources

Equity offering, net of underwriting discounts, commissions and offering expenses .....	\$159,900
Debt offering, net of discounts, commissions and offering expenses .....	87,915
	-----
	\$247,815
	=====

## Uses

Redeem Petro 12 1/4% Senior Subordinated Debentures due 2005.....	\$ 84,094
Redeem Petro 10 1/8% Senior Subordinated Notes due 2003.....	50,000
Redeem Petro 9 3/8% Senior Subordinated Debentures due 2006.....	75,000
Redeem Petro 12 7/8% Preferred Stock.....	27,600
Repurchase Petro 1989 Preferred Stock.....	4,167
Transaction fees and expenses.....	6,954
	-----
	\$247,815
	=====

## Outstanding Star Gas Partners Units

The following table shows the approximate number of units outstanding before and after the transaction. The 323,082 general partner interests/units represents 321,467 general partner units in Star Gas Partners and the 0.01% general partner interest in Star Gas Propane. This 0.01% interest is deemed to be in unit form solely for purposes of this table.

	Before Transaction		After Transaction	
	Number	Percentage	Number	Percentage
	-----	-----	-----	-----
Common Units				
Existing common units.....	3,858,999	60.5%	3,858,999	23.9%
Issued to Petro junior preferred stockholders.....	--	--	102,773	0.6
Issued in equity offering.....	--	--	8,947,368	55.4
	-----	-----	-----	-----
Subtotal.....	3,858,999	60.5	12,909,140	79.9
Subordinated Units				
Existing subordinated units.....	2,396,078	37.5	--	--
Senior subordinated units.....	--	--	2,491,500	15.4
Junior subordinated units.....	--	--	430,395	2.7
	-----	-----	-----	-----
Subtotal.....	2,396,078	37.5	2,921,895	18.1
General Partner Interests/Units...	127,655	2.0	323,082	2.0
	-----	-----	-----	-----
Total.....	6,382,732	100.0%	16,154,117	100.0%
	=====	=====	=====	=====



## Capitalization

The following table shows Star Gas Partners' historical capitalization as of September 30, 1998 on an actual basis and as adjusted to give pro forma effect to the acquisition of Petro. It is further adjusted to give pro forma effect to the equity and debt offerings and the application of the net proceeds of these offerings. This table does not include \$4.2 million of the current portion of Petro's 1989 preferred stock that will be paid with the proceeds of the equity and debt offerings.

The Petro public debt listed below consists of:

- . \$84.1 million of 12 1/4% Senior Subordinated Debentures due 2005, including a prepayment premium of \$2.8 million,
- . \$50.0 million of 10 1/8% Senior Subordinated Notes due 2003 and
- . \$75.0 million of 9 3/8% Senior Subordinated Debentures due 2006.

Upon completion of the transaction, Petro has the right to redeem up to an aggregate of 98.5% of the principal amount of these securities.

The Petro private debt listed below consists of:

- . approximately \$63.1 million of 9% Senior Notes due 2002,
- . \$4.3 million of 10 1/4% Subordinated and Senior Notes due 2001 and
- . \$14.3 million of notes payable for the purchase of fuel oil dealers maturing at various dates through 2004.

You should read this table together with the historical and pro forma financial statements and notes included and incorporated by reference in this proxy statement.

	September 30, 1998		
	Actual	Pro Forma Combined	Adjusted Pro Forma
	(in thousands)		
Cash.....	\$ 1,115	\$ 14,882	\$ 14,540
Debt:			
Star Gas Propane First Mortgage Notes.....	\$ 96,000	\$ 96,000	\$ 96,000
Star Gas Propane acquisi- tion facility.....	8,308	8,308	8,308
The notes issued in the debt offering.....	--	--	90,000
Petro public debt.....	--	209,094	--
Petro private debt.....	--	72,614	78,244
Total Long-Term debt....	104,308	386,016	272,552
Redeemable Preferred Stock:			
Petro 12 7/8% Preferred Stock.....	--	27,600	--
Partners' Capital:			
Common unitholders.....	58,686	60,639	220,539
Existing subordinated unitholders.....	(1,446)	--	--
Senior and junior subordi- nated unitholders.....	--	13,555	13,555
General partner.....	107	1,260	1,260

Total partners' capital.....	57,347	75,454	235,354
	-----	-----	-----
Total capitalization....	\$161,655	\$489,070	\$507,906
	=====	=====	=====

## Summary Selected Historical Financial and Operating Data of Star Gas Partners

The following table describes for the periods and dates indicated, summary selected historical financial and operating data of Star Gas Partners, which is derived from the consolidated financial statements of Star Gas Partners. The financial data is only a summary and should be read in conjunction with Star Gas Partners' historical financial statements and related notes contained in the annual reports and other information that Star Gas Partners has filed with the SEC. See "Incorporation of Certain Documents by Reference." The historical Other Data is unaudited but have been prepared on the same basis as that of the audited consolidated financial statements. These historical results of operations do not predict the future results of operations.

The 1996 column to the table shows the results of operations of the predecessor of Star Gas Partners for the period October 1, 1995 through December 20, 1995 and the results of Star Gas Partners from December 20, 1995 through September 30, 1996. We combined these operating results to facilitate an analysis of the fundamental operating data. However, on a per unit basis, both the net income (loss) and the cash distributions paid in the 1996 column of the table represent Star Gas Partners' actual results for the period December 20, 1995 through September 30, 1996.

"EBITDA" listed in the table below is defined as operating income plus depreciation, amortization and other non-cash charges, less net gain (loss) on sales of businesses and equipment. EBITDA should not be considered 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. Instead, EBITDA provides additional information for evaluating Star Gas Partners' ability to make the minimum quarterly distribution. The definition of EBITDA used by Star Gas Partners is different from the definition of EBITDA used by Petro and may be different from that used by other corporations or partnerships.

	September 30,		
	1996	1997	1998
	-----	-----	-----
	(In thousands, except for per unit data)		
Statement of Operations Data			
Sales.....	\$ 119,634	\$ 135,159	\$ 111,685
Costs and expenses			
Cost of sales.....	58,557	72,211	49,498
Delivery and branch expenses.....	34,750	36,427	37,216
Depreciation and amortization.....	9,680	10,242	11,462
General and administrative expenses.....	6,457	6,818	6,065
Net gain (loss) on sales of assets.....	(260)	(295)	(271)
	-----	-----	-----
Operating income.....	9,930	9,166	7,173
Interest expense, net....	7,124	6,966	7,927
Amortization of debt issuance costs.....	128	163	176
	-----	-----	-----
Income (loss) before income taxes.....	2,678	2,037	(930)
	-----	-----	-----
Income tax expense.....	85	25	25
	-----	-----	-----
Net income (loss).....	\$ 2,593	\$ 2,012	\$ (955)

General partner's interest in net income (loss).....	--	40	(19)
Limited partners' interest in net income (loss).....	--	\$ 1,972	\$ (936)
Basic and diluted, net in- come (loss) per limited partner unit.....	\$ 0.11 (a)	\$ 0.37	\$ (0.16)
Cash distribution declared per unit.....	\$ 1.17 (a)	\$ 2.20	\$ 2.20

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September 30,

	1996	1997	1998
(In thousands, except for per unit data)			

Balance Sheet Data (end of period)

Current assets.....	\$ 17,842	\$ 14,165	\$ 17,947
Total assets.....	156,913	147,469	179,607
Long-term debt.....	85,000	85,000	104,308
Partners' capital.....	61,398	51,578	57,347

Summary Cash Flow Data

Net cash provided by oper- ating activities.....	\$ 9,982	\$ 18,964	\$ 9,264
Net cash provided by (used in) investing activities..	(6,954)	(4,905)	(13,276)
Net cash provided by (used in) financing activities..	(2,649)	(14,276)	4,238

Other Data

Operating income before de- preciation and amortiza- tion less net gain (loss) on sales of equipment ("EBITDA").....	\$ 19,870	\$ 19,703	\$ 18,906
Retail propane gallons sold.....	96,294	94,893	98,870
Ratio of earnings to fixed charges (a).....	1.22x	1.27x	--
Total capital expenditures (b).....	\$ 5,332	\$ 5,279	\$ 5,015

- (a) For purposes of determining the ratio of earnings to fixed charges, earnings are defined as earnings (loss) from continuing operations before income taxes, plus fixed charges. Fixed charges consist of interest expense on all indebtedness, the amortization of deferred debt issuance costs and the portion of operating rental expense that is representative of the interest factor. For the year ended September 30, 1998, earnings were inadequate to cover fixed charges by \$1.0 million.
- (b) Includes net maintenance capital expenditures for the fiscal years ended September 30, 1996, 1997 and 1998 of \$2.3 million, \$3.1 million and \$2.6 million.

Recent Developments

For the three months ended December 31, 1998, sales declined to \$30.2 million, as compared to \$41.8 million for the three months ended December 31, 1997. Retail propane volume sold decreased 9.2 million gallons to 29.4 million gallons, as compared to 38.6 million gallons for the three months ended December 31, 1997. These changes were attributable to the impact of abnormal weather conditions, involving both warmer temperatures of 15.5% and a very dry fall harvest. The abnormally warm weather adversely impacted the sales of



Cost of sales.....	427,388	379,748	271,269	191,508
Operating expenses .....	138,703	132,383	96,292	81,758
Restructuring, corporate identity and pension curtailment.....	4,366	7,640	5,142	1,716
Depreciation, amortization and other non-cash costs....	28,946	28,847	21,567	20,639
	-----	-----	-----	-----
Operating income (loss).....	8,758	(477)	(7,415)	(4,142)
Interest expense-net.....	32,412	31,668	23,777	22,912
Amortization of debt issuance cost.....	1,872	1,464	1,097	1,069
Income tax expense.....	500	500	350	325
Other income (expense)-net...	1,842	11,445	65	127
Share of income (loss) of Star Gas.....	2,283	(235)	(1,808)	(1,890)
Income (loss) before extraordi- nary item.....	(21,901)	(22,899)	(34,382)	(30,211)
	-----	-----	-----	-----
Net income (loss).....	\$ (28,315)	\$ (22,899)	\$ (34,382)	\$ (30,211)
	=====	=====	=====	=====
Basic and Diluted earnings (losses) per common share				
Weighted average number of common shares outstanding				
Class A and Class C common stock.....	\$ (1.20)	\$ (1.06)	\$ (1.47)	\$ (1.29)
Cash dividends declared per common share				
Class A and Class C common stock.....	\$ 0.60	\$ 0.30	\$ 0.23	--
Weighted average number of common shares outstanding				
Basic				
Class A common stock.....	22,983	23,441	23,339	23,960
Class C common stock.....	2,598	2,598	2,598	2,598
Diluted				
Class A common stock.....			23,339	23,960
Class C common stock.....			2,598	2,598
Balance Sheet Data (end of period)				
Cash.....	\$ 3,257	\$ 2,390	\$ 13,806	\$ 13,767
Working capital.....	18,093	12,436	5,414	(7,479)
Total assets.....	275,025	247,846	223,918	198,678
Long-term debt.....	291,337	288,957	288,774	278,864
Redeemable preferred stock (long-term portion).....	8,333	32,489	34,167	28,555
Stockholders' deficiency.....	(145,733)	(177,033)	(189,361)	(209,618)
Summary Cash Flow Data:				
Net cash provided by (used in) operating activities....	\$ (3,852)	\$ 18,644	\$ 34,342	\$ 28,803
Net cash provided by (used in) investing activities....	(26,193)	(980)	(14,059)	1,011
Net cash provided by (used in) financing activities....	(44,983)	(18,531)	(9,734)	(18,437)
Other Data				
Operating income before depreciation, amortization and provision for supplemental benefits (EBITDA).....	\$ 37,704	\$ 28,370	\$ 14,152	\$ 16,497
Heating oil gallons.....	456,141	410,291	282,806	226,579
Ratio of earnings to fixed charges(a).....	--	--	--	--

(a) For purposes of determining the ratio of earnings to fixed charges, earnings are defined as earnings (loss) from continuing operations before income taxes, plus fixed charges. Fixed charges consist of interest expense on all indebtedness and the amortization of deferred debt issuance costs and the portion of operating rental expense that is representative of the interest factor. For the years ended December 31, 1996 and 1997 and for the nine months ended September 30, 1997 and 1998, earnings were inadequate to cover fixed charges by \$28.3 million, \$22.9 million, \$34.3 million and

\$30.2 million.

Summary Selected Unaudited Pro Forma Condensed Consolidated Financial Information

The following summary selected unaudited pro forma condensed consolidated financial information for the twelve month period ended September 30, 1998 assume the transaction occurred on October 1, 1997. The pro forma financial information below reflects the purchase method of accounting and is intended to give you a better picture of what our businesses might have looked like had they been combined since October 1, 1997. The companies may have performed differently if they were combined. You should not rely on the pro forma financial information as being indicative of the historical results that we would have had or the future results that we will experience after the transaction. See "Unaudited Pro Forma Condensed Consolidated Financial Information."

The "Pro Forma Combined" column of the table represents the acquisition of Petro by Star Gas Partners and the "As Adjusted Pro Forma" column of the table represents the further effects of the equity and debt offerings.

	Twelve Months Ended September 30, 1998	
	----- (dollars in thousands, except per unit amounts)	
	Pro Forma Combined	As adjusted Pro Forma
	-----	-----
Statement of Operations Data		
Sales.....	\$ 566,155	\$ 566,155
Costs and expenses:		
Cost of sales.....	349,472	349,472
Operating expenses.....	161,551	161,551
Restructuring charges.....	2,085	2,085
Transaction expenses.....	1,029	1,029
Corporate identity expenses.....	1,100	1,100
Provision for supplemental benefits.....	409	409
Depreciation and amortization.....	36,765	36,765
Net gain (loss) on sales of assets.....	(48)	(48)
	-----	-----
Operating income.....	13,696	13,696
Interest (income) expense, net.....	39,157	23,669
Amortization of debt issuance costs.....	1,608	383
	-----	-----
Income (loss) before income taxes.....	(27,069)	(10,356)
Income tax expense.....	500	500
	-----	-----
Net income (loss).....	\$ (27,569)	\$ (10,856)
	=====	=====
Net income (loss) per limited partner unit.....	N.R.	\$ (0.67)
		=====
Balance Sheet Data (end of period)		
Current assets.....	\$ 100,659	\$ 100,317
Total assets.....	662,878	664,621
Long-term debt.....	386,016	272,552
Total partners' capital.....	75,454	235,354
Summary Cash Flow Data		
Net cash provided by operating activities.....	\$ 11,955	\$ 27,443
Net cash provided by (used in) investing activities.....	(4,826)	(4,826)
Net cash provided by (used in) financing activities.....	(17,356)	(22,926)
Other Data		
Operating income plus depreciation, amortization less net gain (loss) on sales of equipment		

("EBITDA") (a).....	\$	50,918	\$	50,918
Ratio of earnings to fixed charges(b).....		--		--
Heating oil and propane gallons.....		455,360		455,360

(footnotes on next page)

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- (a) EBITDA has been reduced by approximately \$4.2 million in expenses associated with Petro's corporate identity, restructuring and transaction expenses.
  - (b) For the pro forma combined and as adjusted pro forma, the earnings were inadequate to cover fixed charges by \$27.6 million and \$10.9 million.

In analyzing the historical results of Star Gas Partners and the pro forma information as provided in the table above, the following three important factors should be considered.

- . First, the results for the fiscal 1998 pro forma exclude cost savings associated with Petro's restructuring program implemented during 1998. This restructuring program includes reductions in both corporate and field personnel, the consolidation of employee benefit plans and the rationalization of branch facilities.
- . Second, while depreciation and amortization expenses reduce net income as a non-cash expense, these expenses do not impact distributable cash flow.
- . Third, in fiscal 1998, temperatures were significantly warmer than normal for the areas in which Star Gas Partners conducts its propane operations and Petro conducts its home heating oil operations. Overall levels of pro forma available cash from operating surplus were adversely affected during fiscal 1998 due to this abnormally warm weather.

#### RISK FACTORS

Limited partner interests are inherently different from the capital stock of a corporation, although the business risks faced by Star Gas Partners are similar to those of a corporation engaged in a similar business. Star Gas Partners common unitholders and Petro common stockholders should consider the following factors in evaluating the transaction.

##### Risks to Star Gas Partners Common Unitholders

The Star Gas Corporation board of directors urges Star Gas Partners common unitholders to carefully consider each of the factors described below.

##### Conflicts of Interest Were Present in Negotiating and Structuring the Transaction

All of the directors of Star Gas Corporation, other than the members of the special committee, are also directors or officers of Petro. Thus, except for the special committee, members of the Petro board of directors and the Star Gas Corporation board of directors have interests that are different from, and in conflict with, the interests of the Star Gas Partners common unitholders. The Star Gas Corporation board of directors appointed the two members of the special committee to negotiate the acquisition of Petro on behalf of the Star Gas Partners common unitholders.

Prior to Petro's acquisition of Star Gas Corporation in 1992, Star Gas Corporation engaged Nicoletti & Company Inc., an investment banking firm owned by William P. Nicoletti, a member of the special committee, to perform specific investment banking services for Star Gas Corporation. In this engagement, Star Gas Corporation paid Nicoletti & Company Inc. fees of \$40,000, \$521,500 and \$81,600 for services rendered during 1992, 1993 and 1994. In 1995, Star Gas Corporation paid Nicoletti & Company Inc. \$20,000 in advisory fees for a proposed acquisition. In 1997, Star Gas Corporation paid Mr. Nicoletti \$20,000 for serving on the special committee that explored the possible sale or merger of Star Gas Partners. In 1998, Star Gas Corporation paid Mr. Nicoletti \$40,000 for serving on the Star Gas Partners special committee that explored the business combination with Petro.

Elizabeth K. Lanier, a member of the special committee, was a partner in the law firm of Frost & Jacobs in Cincinnati, Ohio until June 1996. Frost & Jacobs has acted as counsel to Star Gas Corporation in specific litigation matters. In 1997, Star Gas Corporation paid Ms. Lanier \$20,000 for serving on the special committee that explored the possible sale or merger of Star Gas Partners. In 1998, Star Gas Corporation paid Ms. Lanier \$40,000 for serving on the special committee that explored the business combination with Petro.

The officers and directors of Star Gas Corporation will be indemnified, to the extent permitted by law, for any and all actions taken in the transaction, and they are also covered by customary directors' and officers' liability insurance. Each member of the Star Gas Corporation board of directors will be a member of the board of directors of Star Gas LLC following the transaction, except that, at her request, Elizabeth Lanier will withdraw after the transaction as a result of additional duties associated with a new job. She will be replaced by a director selected by the Star Gas LLC board, and the new director will not be an officer or employee of Star Gas LLC or any of its affiliates. The current officers of Star Gas Corporation will be employed as officers of Star Gas Propane following the transaction.

Petro Has Significant Recent Net Losses That Are Likely To Continue

Petro incurred net losses of approximately \$23.5 million, \$28.3 million, \$22.9 million and \$30.2 million for the years ended December 31, 1995, 1996 and 1997 and the nine months ended September 30, 1998. These net losses were primarily a result of the amortization and interest expense associated with Petro's many acquisitions since 1980. Other factors include:

- . customer attrition,
- . recent mild winters and
- . other operational factors.

Since Petro's strategy is to maximize cash flow, its accounting focus is not on net income. Consequently, Petro is likely to incur non-cash expenses, such as depreciation and amortization, that may result in net losses in the near term.

Continued and/or Increased Distributions per Common Unit Are Not Assured

The Star Gas Corporation board of directors structured the transaction with the intent that it would increase the cash available to be distributed per common unit. The intended increase in cash available for distributions is based on several expectations that may not be realized, such as:

- . successfully acquiring home heating oil businesses at attractive prices,
- . completing Petro's restructuring program to reduce customer attrition and
- . increasing profit margins on a per gallon basis.

The amount of cash needed to pay the minimum quarterly distribution for the four quarters on units outstanding before the transaction is approximately:

Common Units.....	\$ 8.5 million
Subordinated Units.....	5.2 million
General Partner Interests.....	0.3 million
	-----
Total.....	\$14.0 million

After giving pro forma effect to the propane acquisitions completed in the twelve months ended September 30, 1998, and without giving pro forma effect to the transaction, the amount of available cash for distribution generated in the twelve months ended September 30, 1998 was approximately \$9.2 million.



The amount of cash needed to pay the minimum quarterly distribution for four quarters on units outstanding immediately after the transaction is approximately:

Common Units.....	\$29.7 million
Senior Subordinated Units .....	5.7 million
Junior Subordinated Units.....	1.0 million
General Partner Units.....	0.7 million
	-----
Total.....	\$37.1 million

After giving pro forma effect to the transaction, the amount of available cash generated in the twelve months ended September 30, 1998 would have been about \$21.9 million. If infrequent restructuring,

corporate identity and transaction expenses were not taken into effect, pro forma cash available for distribution would have been \$26.1 million.

#### The Percentage of Common Units Will Increase, Which Will Make It More Difficult to Pay the Full Minimum Quarterly Distribution

The existing common units represent a 60.5% limited partner interest in Star Gas Partners. After the transaction, the common units will represent a 79.9% limited partner interest. Accordingly, Star Gas Partners will be required to make distributions to a larger percentage of its equity at the common unit level, which will increase the likelihood that Star Gas Partners will not have sufficient funds to pay the full minimum quarterly distribution to all Star Gas Partners common unitholders. In addition during the subordination period, Star Gas Partners can issue 2,500,000 additional common units without obtaining any Star Gas Partners unitholder approval. These additional common units could further dilute the interest of then-existing Star Gas Partners unitholders in the net assets of, and distributions to be made by, Star Gas Partners. In addition, holders of Star Gas Partners common units will not have preemptive rights to acquire additional common units or other partnership interests that may be issued by Star Gas Partners.

#### Common Unitholders Will Have Reduced Voting Power

After the transaction, Star Gas Partners common unitholders will have reduced voting power. In some instances, matters that previously required only the consent of a majority of the outstanding common units will also require a separate class vote of the senior subordinated units and junior subordinated units, voting together as a single class. Thus, there may be matters in the future that the common units approve but that are not adopted because a majority of the senior subordinated and junior subordinated units did not approve those matters.

#### Star Gas Partners' Indebtedness, Including the Guarantee of the Notes, May Limit Its Ability to Make Distributions on the Common Units and Affect Its Operations

As a result of the transaction, Star Gas Partners will have debt that is substantial compared to its partners' capital. Principal and interest payable on this debt will reduce cash available to make distributions on the common units. Under specified circumstances, the terms of Star Gas Partners' debt instruments, including the guarantee of the notes issued in the debt offering, will limit its ability to distribute cash to Star Gas Partners common unitholders and to borrow additional funds. The limitations and restrictions in new debt that Star Gas Partners and its subsidiaries issue may be more restrictive than those in current indebtedness. In addition, some of Star Gas Partners' debt is secured by its assets. If Star Gas Partners defaulted on this secured debt, the lenders could institute foreclosure proceedings to seize its assets. Any attempt to stay these foreclosure actions by seeking to reorganize under the federal Bankruptcy Code would have a material adverse effect on Star Gas Partners and the Star Gas Partners common unitholders.

Because the Demand for Heating Oil Is More Affected by Weather Conditions than the Demand for Propane, Star Gas Partners' Financial Condition May be More

Petro's operations are more sensitive to temperature levels than are Star Gas Partners' because home heating oil is used almost exclusively for heating purposes, while propane has uses other than heating. Since sales of home heating oil during the peak heating season from October through March represent 75% to 80% of Petro's annual home heating oil volume, abnormally warm temperatures during this period can negatively affect Petro's financial results.

Petro's Operating Results Will Be Adversely Affected if Its Significant Customer Losses Are Not Offset or Reduced by Customer Gains

Petro's net attrition of home heating oil customers has been between approximately 5% to 6% per year over the past five years. This rate represents an annual gross customer loss rate of about 15% to 16%, offset by customer gains of approximately 10% yearly. Customer losses are the result of various factors, including

- . customer relocations,
- . supplier changes based primarily on price and service,
- . natural gas conversions and
- . credit problems.

Petro may not be able to maintain or reduce its customer attrition rate in the future.

Because of the Highly Competitive Nature of the Heating Oil Business, Petro May Not Be Able to Maintain Existing Customers or Acquire New Customers Which Would Have an Adverse Impact on Operating Results

Petro competes with heating oil distributors offering a broad range of services and prices, from full service distributors, like Petro, to those offering delivery only. If Petro is unable to effectively compete, it may lose existing customers or fail to acquire new customers, which may have a material adverse effect on its results of operations and financial condition. Competition with other companies in the home heating oil industry is based primarily on customer service and price. Long-standing customer relationships are typical in the industry. It is customary for companies to deliver home heating oil to their customers based upon weather conditions and historical consumption patterns, without the customer making an affirmative purchase decision. Most companies provide home heating equipment repair service on a 24-hour per day basis. In some cases, homeowners have formed buying cooperatives to purchase fuel oil from distributors at a price lower than individual customers are otherwise able to obtain. As a result of these factors, it may be difficult for Petro to acquire new retail customers.

If Petro Does Not Make Acquisitions on Economically Acceptable Terms, Its Future Financial Performance Will Be Limited

The home heating oil industry is not a growth industry because of increased competition from alternative energy sources. Petro's growth in the past decade has been directly tied to the success of its acquisition program. Its future financial performance will depend on its ability to continue to make acquisitions at attractive prices. There is no assurance that Petro will be able to continue to make acquisitions or to do so on economically acceptable terms. If Petro is able to make acquisitions,

there is no assurance that they will be profitable, or that any additional debt incurred to make these acquisitions will not offset the cash generated. Factors that may adversely affect Petro's operating and financial results may also limit Petro's access to capital and its acquisition activities.

Sudden and Sharp Oil Price Increases That Cannot be Passed on to Customers May Adversely Affect Petro's Operating Results

During periods of sudden and sharp increases in the supply cost of home heating oil, Petro may be unwilling or unable to pass the entire increase in costs on to its customers. As a result, gross profit margins will be reduced. On the other hand, price increases that continue over a long period of time may be passed on to customers. These increases could reduce demand by encouraging conservation or conversion to alternative energy sources. If demand were reduced and Petro was unable to increase its gross profit margin or reduce its operating expenses, the decrease in volume would adversely affect Petro's operating results.

Petro also competes for customers with suppliers of alternative energy products, principally natural gas. Petro could face additional price competition from alternative heating sources such as electricity and natural gas as a result of deregulation in those industries. Over the past five years, conversions by Petro's customers from heating oil to other sources have averaged approximately 1% per year of the homes it serves.

#### Petro Is Subject to Operating and Litigation Risks That Could Adversely Affect Its Operating Results to the Extent Not Covered By Insurance

Petro's operations, like those of Star Gas Partners, are subject to all operating hazards and risks incidental to providing customers with combustible liquids such as home heating oil. As a result, in the ordinary course of business, Petro may be sued. Petro maintains insurance policies in the amounts and with coverages and deductibles as it believes are reasonable. However, there can be no assurance that this insurance will be adequate to protect Petro from all expenses related to potential future claims.

#### Petro's Operating Results May Be Adversely Affected by Governmental Regulation and Associated Environmental and Regulatory Costs

Petro's business is subject to a wide range of federal and state laws and regulations related to environmental and other regulated matters. Petro has implemented environmental programs and policies designed to avoid potential liability and cost under applicable environmental laws. It is possible, however, that Petro will have increased costs due to stricter pollution control requirements or liabilities resulting from non-compliance with operating or other regulatory permits. New environmental regulations might adversely impact Petro's operations, including underground storage and transportation of home heating oil. In addition, the environmental risks inherently associated with Petro's home heating oil operations, such as the risks of accidental release or spill, are greater than those associated with Star Gas Partners' propane operations. It is possible that material costs and liabilities will be incurred, including those relating to claims for damages to property and persons.

#### Tax Risks to Star Gas Partners Common Unitholders

##### The Increase in Taxes Payable By Petro In the Future Will Reduce Dividends to Star Gas Partners, Which May Reduce Distributions to Star Gas Partners Unitholders

Petro and its corporate affiliates do not expect to pay significant federal income tax for several years following the transaction. However, over time the amount of federal income taxes paid by Petro and its corporate affiliates will increase. This will reduce the amount of cash that Star Gas Partners can distribute to its unitholders. A successful IRS challenge to the deduction of depreciation

or interest on specific debt will increase Petro and its affiliates' tax liability, also reducing Star Gas Partners' ability to distribute cash to its unitholders.

The transaction will result in income to Petro equal to the difference in the value of the Star Gas Partners units distributed in the merger, including the amount of any debt of which Petro is relieved and the federal income tax basis Petro has in those units. Petro expects that its net operating losses will generally offset this income and that it will incur only nominal tax. The IRS could challenge the amount of Petro's net operating losses and the use of the net operating losses to offset income realized in the transaction. A

successful challenge could reduce the cash available for distribution by Star Gas Partners.

Petro and its affiliates do not expect to pay significant federal income tax for several years. Petro and its affiliates do expect to generate earnings and profits during that time which will make part of the distributions from these entities to Star Gas Partners taxable dividend income to the Star Gas Partners unitholders. This dividend income cannot be offset by past or future losses generated by Star Gas Partners' propane activities.

The Portion of Distributions That Constitute Taxable Income to the Star Gas Partners Unitholders Will Increase in the Future.

The portion of the cash distributions that constitute taxable income to Star Gas Partners unitholders will increase at a greater rate if the transaction occurs. For example, the general partner estimates that a holder of a common unit issued in the initial public offering would be allocated, in the aggregate, no net passive income and less than \$0.05 per unit per year of portfolio income through December 31, 2004 if the transaction is not completed. In contrast, if the transaction is completed the general partner estimates that the same holder would instead be allocated, in the aggregate, no net passive income and approximately \$.20 per unit on average per year of portfolio income through December 31, 2002. In either case, the taxable income allocated to a Star Gas Partners common unitholder after either date will constitute an increasingly higher percentage of cash distributed to him. Furthermore, distributions that are in excess of the minimum quarterly distribution will increase the portion of each cash distribution that constitutes taxable income to an existing Star Gas Partners common unitholder. However, the transaction will have different tax effects on different Star Gas Partners common unitholders, depending on when they purchased their units.

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#### Risks to Petro Common Stockholders

The Petro board of directors urges Petro common stockholders to carefully consider each of the factors described below.

#### Conflicts Were Present in Structuring and Negotiating the Transaction

Some directors of Petro have interests in the transaction that are different from, and in conflict with, the interests of the Petro public common stockholders. Irik P. Sevin is both the Chairman of the Board and Chief Executive Officer of Petro and the Chairman of the Board of Star Gas Corporation; Audrey L. Sevin is the Secretary and a director of both Petro and Star Gas Corporation; and Messrs. Paul Biddelman, Thomas J. Edelman and Wolfgang Traber are directors of both Petro and Star Gas Corporation. Messrs. Sevin, Biddelman, Edelman and Traber and Mrs. Sevin are beneficial owners of Petro Class A common stock and Petro Class C common stock. As a result, the members of the Petro board who are also members of the Star Gas Corporation board have conflicting fiduciary duties to the Petro public common stockholders and the common unitholders who are not directors, officers or affiliates of Star Gas Partners.

Some of the directors and their affiliates are receiving consideration that is different from that received by Petro public common stockholders. These directors and their affiliates will be exchanging their common stock for Star Gas Partners junior subordinated units and general partner units, while the Petro public common stockholders and other directors and affiliates will be receiving Star Gas Partners senior subordinated units.

The Star Gas Partners junior subordinated units and general partner units will not be entitled to distributions until the senior subordinated units receive the minimum quarterly distribution. The Star Gas Partners senior subordinated units will be publicly traded and have been approved for listing on the New York Stock Exchange. The Star Gas Partners junior subordinated units and general partner units have not been registered and will not be publicly traded.

The affiliates exchanging their Petro common stock for Star Gas Partners junior subordinated units and general partner units will receive .14318 of a junior subordinated unit or general partner unit for each share of Petro common stock. The remaining common stockholders will exchange their shares for Star

Gas Partners senior subordinated units at a ratio of .11758 of a senior subordinated unit for each share of Petro common stock.

The transaction has been structured so that the Petro public common stockholders will realize a taxable gain or loss on the transaction, while substantially all affiliates of Petro will exchange their Petro common stock without realizing a taxable gain or loss. This structure was designed to minimize the tax effect of the transaction on Petro. It was also based on the assumption that most Petro affiliates have a low tax basis and would prefer not realizing a taxable gain on the transaction, while Petro public common stockholders generally have a higher tax basis and would prefer realizing a tax loss.

The officers and directors of Petro will be indemnified, to the extent permitted by law, for any and all actions taken in the transaction. The current officers of Petro will continue to be employed as officers following the transaction.

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#### Senior Subordinated Unitholders Are Not Assured of Receiving Cash Distributions

Petro public common stockholders will receive senior subordinated units in exchange for their shares of common stock. Petro common stockholders should consider the following factors regarding distribution rights of senior subordinated units:

- . During the subordination period, which generally cannot end before October 1, 2002, no distributions of cash for any quarter may be made on the Star Gas Partners senior subordinated units until the Star Gas Partners common units have received the minimum quarterly distribution, plus any arrearages on those common units.
- . Beginning with the quarter ending on December 31, 1999, the amount of distributions depends upon the amount of available cash generated by Star Gas Partners after October 1, 1999.
- . Star Gas Partners senior subordinated units do not accrue distribution arrearages.

Petro common stockholders should also keep in mind that there is no assurance that:

- . Star Gas Partners will ever meet the tests that must be satisfied to end the subordination period;
- . the senior subordinated units will ever convert to Class B common units; or
- . Petro will ever meet the financial tests necessary for any additional senior subordinated units to be issued to them.

Star Gas Partners did not make a distribution on the currently outstanding subordinated units for the quarter ended September 30, 1998 and will not make a distribution on the subordinated units for the quarter ended December 31, 1998.

#### Cash Distributions Are Not Guaranteed and May Fluctuate with Star Gas Partners' Performance and Reserve Requirements

Because distributions on the Star Gas Partners senior subordinated units are dependent on the amount of cash generated, distributions may fluctuate based on the performance of Star Gas Partners. The actual amount of cash that is available will depend upon numerous factors, including:

- . profitability of operations,
- . required principal and interest payments on debt,
- . the cost of acquisitions,

- . issuance of debt and equity securities,
- . fluctuations in working capital,
- . capital expenditures,
- . adjustments in reserves,
- . prevailing economic conditions and
- . financial, business and other factors.

Some of these factors are beyond the control of the general partner.

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The amended and restated partnership agreement gives the general partner discretion in establishing reserves for the proper conduct of Star Gas Partners' business. These reserves will also affect the amount of cash available for distribution. The general partner may establish reserves for distributions on the senior subordinated units only if those reserves will not prevent Star Gas Partners from distributing the full minimum quarterly distribution, plus any arrearages, on the common units for the following four quarters.

The amount of cash needed to pay the minimum quarterly distribution for four quarters on units outstanding immediately after the transaction is approximately \$37.1 million. This figure represents \$29.7 million for the common units, \$5.7 million for the senior subordinated units, \$1.0 million for the junior subordinated units and \$0.7 million for the general partner units. After giving pro forma effect to the transaction, the amount of available cash generated in the twelve months ended September 30, 1998 would have been about \$21.9 million. If infrequent restructuring, corporate identity and transaction expenses were not taken into effect, pro forma cash available for distribution would have been \$26.1 million.

The Liquidity and Value of Senior Subordinated Units Are Uncertain Because There Is No Active Trading Market and Anticipated Volatility In Market Price

At present there is no trading market for the Star Gas Partners senior subordinated units. Although the senior subordinated units have been approved for listing on the NYSE, there can be no assurance that an active trading market will develop after the transaction. The Petro board of directors believes that senior subordinated units will likely trade at a discount to the price per common unit. The actual trading price of the senior subordinated units will depend on a variety of factors, including market conditions for securities of publicly-traded limited partnerships, the trading price of the common units, weather conditions and the cash generated by Star Gas Partners. There can be no assurance that holders of Star Gas Partners senior subordinated units will be able to sell their units at favorable prices. After the transaction, if a number of former Petro common stockholders sell their senior subordinated units, the trading price of the senior subordinated units could decline significantly.

Star Gas Partners Has Substantial Indebtedness That May Restrict its Ability to Make Distributions on Senior Subordinated Units

Although it has less debt than Petro, Star Gas Partners will have debt after the transaction that is substantial compared to its partners' capital. Principal and interest payable on this debt will reduce cash available to make distributions on the senior subordinated units. Under some circumstances, the terms of Star Gas Partners' debt instruments, including the notes issued in the debt offering, will limit its ability to distribute cash to senior subordinated unitholders and to borrow additional funds. The limitations and restrictions in the new debt that Star Gas Partners issues may be more restrictive than those in current debt instruments. In addition, some of Star Gas Partners' debt is secured by its assets. If Star Gas Partners defaulted on this secured debt, the lenders could institute foreclosure proceedings to seize its assets. Any attempt to stay these foreclosure actions by seeking to reorganize under the federal Bankruptcy Code would have a material adverse effect on Star Gas Partners and the Star Gas Partners senior subordinated unitholders.

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Provisions Concerning Change of Control, Default and Preclusion From Paying Distributions in Star Gas Partners' Debt Instruments May Affect Distributions on the Senior Subordinated Units

After completing the transaction, it is expected that the debt instruments of Star Gas Partners and Petro will contain provisions relating to a "change of control." A change of control of Star Gas Partners would result in approximately \$96 million of Star Gas Propane debt and approximately \$170 million of Petro debt becoming immediately due and payable. A change of control at the Petro level would accelerate the Petro debt but not the Star Gas Propane debt. In either case, this would necessarily affect Star Gas Partners' ability to make distributions to Star Gas Partners senior subordinated unitholders. Neither party is restricted from entering into a transaction that would trigger the change of control provisions. If these change of control provisions are triggered, some of the outstanding debt may become due. It is possible that Star Gas Partners or Petro will not have sufficient funds at the time of any change of control to make the required debt payments or that restrictions in its other debt instruments will not permit those payments. In some instances, lenders would have the right to foreclose on Star Gas Partners' or Petro's assets if debt payments were not made upon a change of control.

Star Gas Partners Unitholders Have Limited Voting Rights and Do Not Control the General Partner

Star Gas Partners unitholders have no right to elect the general partner on an annual or other continuing basis. The general partner manages and operates Star Gas Partners and Star Gas Propane. Unlike the holders of common stock in a corporation, Star Gas Partners unitholders have only limited voting rights on matters affecting Star Gas Partners' business. The general partner generally may not be removed unless approved by the holders of 66 2/3% of the outstanding units, voting together as a single class but not including those held by the general partner and its affiliates. As a result, Star Gas Partners unitholders have only limited influence on matters affecting the operation of Star Gas Partners, and it would be difficult for third parties to control or influence Star Gas Partners. Although the amended and restated partnership agreement provides that the general partner may not, with specified exceptions, transfer its general partner units to another person before December 31, 2005 unless approved by a unit majority, the members of Star Gas LLC may transfer their limited liability company interests in Star Gas LLC to a third party at any time without the approval of the Star Gas Partners unitholders.

Unlike the holders of Star Gas Partners common units, the holders of Star Gas Partners senior subordinated units do not have the voting right to approve the issuance of additional partnership interests under any circumstances. Furthermore, the matters on which the senior subordinated units may vote require the approval of a unit majority. During the subordination period, a unit majority means at least a majority of the common units, except those of the general partner and its affiliates, and at least a majority of the senior subordinated units and junior subordinated units voting as a single class. Thus, there may be matters that are approved by a majority of the senior subordinated units but that are nevertheless not adopted because either too few junior subordinated units approved or a majority of the common units did not approve.

The Issuance of Additional Units by Star Gas Partners May Dilute Existing Star Gas Partners Unitholders' Interests in Assets, Income and Available Cash

After the transaction, Star Gas Partners will have the authority to issue up to 2,500,000 common units. In some circumstances, it may also issue an unlimited number of additional common, senior subordinated, and junior subordinated units or other equity securities for consideration and on terms determined in the general partner's sole discretion without approval of the Star Gas Partners unitholders. The issuance of these additional units may dilute the interests of the existing Star Gas Partners unitholders in its assets, income and available cash.

The Amended and Restated Partnership Agreement Contains Provisions Intended to Discourage a Change of Management That May Diminish the Trading Prices of the Star Gas Partners Senior Subordinated Units

The amended and restated partnership agreement contains provisions that may discourage attempts to remove an incumbent general partner or otherwise change the management of Star Gas Partners. These provisions may diminish the trading price of the senior subordinated units.

#### Star Gas Partners' Ability to Make Distributions May Be Adversely Affected by Its Obligation to First Reimburse the General Partner

Before any distributions on the units, Star Gas Partners will reimburse the general partner for all expenses it has incurred on behalf of Star Gas Partners. The reimbursement of those expenses and the payment of reasonable fees charged by the general partner for its services could adversely affect the ability of Star Gas Partners to make distributions. Reimbursable expenses and fees are determined by the general partner in its sole discretion.

#### There Is a Limited Call Right That May Require Star Gas Partners Unitholders to Sell Their Units at an Undesirable Time or Price

If at any time less than 20% of the outstanding units of any class are held by persons other than the general partner and its affiliates, the general partner has the right to acquire all, but not less than all, of those units held by the unaffiliated persons. The price for these units will generally equal the then-current market price of the units. As a consequence, a Star Gas Partners unitholder may be required to sell his units at an undesirable time or price. The general partner may assign this acquisition right to any of its affiliates or Star Gas Partners. After the subordination period ends, if Star Gas Partners acquires more than 66 2/3% of the Class B common units in a twelve-month period, then Star Gas Partners will have a similar call right.

#### Star Gas Partners Unitholders May Not Have Limited Liability in Some Circumstances

A number of states have not clearly established limitations on the liability of limited partners for the obligations of a limited partnership. If it were determined that Star Gas Partners had been conducting business in any state and had failed to comply with the applicable limited partnership statute, or that the rights or exercise of the rights by the limited partners as a group under the amended and restated partnership agreement constituted participation in the "control" of Star Gas Partners, then a Star Gas Partners unitholder might be held liable to the same extent as the general partner for Star Gas Partners' obligations.

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#### Petro Common Stockholders Will Have Fewer Rights as Star Gas Partners Unitholders

After the transaction, the Petro common stockholders will lose their rights as stockholders in a Minnesota corporation, but will gain the rights of limited partners in a Delaware limited partnership. Overall, the transaction probably will result in a reduction in Petro common stockholders' legal rights. For example, while Petro common stockholders currently have the right to elect directors, Star Gas Partners unitholders do not have the right to elect the directors of the general partner. A comparison of these changes in rights is described in "Comparison of Securities."

#### Since Weather Conditions May Adversely Affect the Demand for Propane, Star Gas Partners' Financial Condition Is Vulnerable to Warm Winters

Weather conditions may adversely impact Star Gas Partners' operating results and financial condition. Propane is used for both heating and agricultural purposes. Accordingly, retail propane sales are directly affected by the severity of the winter weather. The highest sales occur during the six-month peak heating season from October through March, which period accounts for about 70% to 75% of total retail propane volume. For the fiscal year ended September 30, 1998, temperatures were significantly warmer than normal for the areas where Star Gas Partners sells propane. Weather variations also affect demand for propane from agricultural customers because dry weather during the harvest season reduces demand for propane in crop drying.

#### Propane Price Increases May Negatively Affect Star Gas Partners' Operating Results and Financial Condition



The retail propane business is a margin-based business in which gross profits depend on sales prices over propane supply costs. Consequently, Star Gas Partners' profitability is sensitive to changes in wholesale and market prices of propane. Star Gas Partners has no control over these market conditions. Thus, when there are large or sudden increases in the supply costs of propane, Star Gas Partners may not be able to pass on these increases to its customers through higher sales prices, which could reduce its gross margin.

Market Volatility and/or Inflation May Cause Star Gas Partners to Sell Inventory at Less Than the Price That Star Gas Partners Purchased It which would Adversely Affect Operating Results

Because of the potential volatility of propane prices, the market price for propane could fall below the price at which Star Gas Partners purchased it, which would adversely affect gross margin or render sales from inventory unprofitable. Propane is available from numerous sources, including integrated international oil companies, independent refiners and independent wholesalers. Star Gas Partners purchases propane from a variety of suppliers under supply contracts and on the spot market. The major portion of propane purchased by Star Gas Partners is produced domestically representing approximately 95% in fiscal 1998. To the extent that Star Gas Partners purchases propane from Canadian sources, which was approximately 5% in fiscal 1998, its propane business will be subject to risks of disruption in foreign supply. Star Gas Partners attempts to minimize inventory risks by purchasing propane on a short-term basis. During periods of low demand for propane, which generally occur during the summer months, Star Gas Partners has on occasion purchased large volumes of propane at lower-than-market costs for storage in its 21 million gallon Indiana underground storage facility for future resale. Star Gas Partners may from time to time engage in transactions such as options or fixed price contracts to purchase propane to hedge product

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costs in an attempt to reduce cost volatility. To date, the level of these activities has not been significant and Star Gas Partners is not currently engaged in any of these transactions.

Inflation increases Star Gas Partners' operating and administrative costs. Star Gas Partners attempts to limit the effects of inflation on its operations through cost control efforts, productivity improvement and increases in gross profit margins.

Star Gas Partners Is Dependent on Principal Suppliers and Carriers, Which Increases the Risk of an Interruption in Supply That Might Result in a Loss of Revenues and/or Customers

During fiscal year 1997, 43% of Star Gas Partners' propane purchases in the Midwest was purchased on the spot market from various Mont Belvieu, Texas sources, and 21% was purchased from three refineries owned by Amoco Canada Marketing Group. Approximately 47% of the purchases from Amoco Canada were made under long-term market-based supply contracts, and the balance was made under short-term supply contracts. Although Star Gas Partners believes that alternative sources of propane are readily available, if Star Gas Partners was unable to purchase propane from its usual sources, the failure to obtain alternate sources at competitive prices and on a timely basis could have a material adverse effect on the business of Star Gas Partners.

Historically, a substantial portion of the propane purchased by Star Gas Partners has originated in Mont Belvieu, Texas and has been shipped to Star Gas Partners through a major common carrier pipeline. Any significant interruption in the service at Mont Belvieu or on the common carrier pipeline could have a material adverse effect on the business of Star Gas Partners.

Because of the Highly Competitive Nature of the Retail Propane Business, Star Gas Partners May Not Be Able to Maintain Existing Customers or Acquire New Customers Which Would Have an Adverse Impact on its Operating Results

If Star Gas Partners is unable to compete effectively, it may lose existing customers or fail to acquire new customers, which will have a material adverse effect on its results of operations and financial condition. Many of Star Gas Partners' competitors and potential competitors are larger or have substantially greater financial resources than Star Gas Partners, which may provide them with some advantages.

Generally, competition in the past few years has intensified, partly as a result of warmer-than-normal weather and general economic conditions. Most of Star Gas Partners' propane retail branch locations compete with five or more marketers or distributors. The principal factors influencing competition with other retail marketers are

- . price,
- . reliability and quality of service,
- . responsiveness to customer needs,
- . safety concerns,
- . long-standing customer relationships,
- . the inconvenience of switching tanks and suppliers and
- . the lack of growth in the industry.

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Star Gas Partners can make no assurances that it will be able to compete successfully on the basis of these factors. If a competitor attempts to increase market share by reducing prices, Star Gas Partners' operating results and financial condition could be materially and adversely affected. Competition from alternative energy sources has been increasing as a result of reduced regulation of many utilities, including natural gas and electricity.

Star Gas Partners Cannot Grow Unless It Makes Acquisitions on Economically Acceptable Terms

The propane business is mature and total demand is expected to remain relatively flat or to decline slightly. Star Gas Partners' future financial performance will depend on its ability to make acquisitions at attractive prices. Star Gas Partners cannot assure that it will be able to identify attractive acquisition candidates in the future or to acquire them on economically acceptable terms. In particular, competition for acquisitions in the propane business has intensified and become more costly in recent years. Factors that may adversely affect operating and financial results, such as warm weather patterns, may limit Star Gas Partners' access to capital and adversely affect its ability to make acquisitions.

In addition, acquisitions may be dilutive to earnings and any additional debt incurred to finance acquisitions may affect Star Gas Partners' ability to make distributions to unitholders.

Star Gas Partners Is Subject to Operating and Litigation Risks That Could Adversely Affect Its Operating Results to the Extent Not Covered By Insurance

Star Gas Partners' operations are subject to all operating hazards and risks incidental to providing consumers with combustible liquids such as propane. Thus, in the ordinary course of business, Star Gas Partners may be a defendant in litigation. Star Gas Partners maintains insurance policies in the amounts and with the coverages and deductibles as the general partner believes are reasonable. However, there can be no assurance that this insurance will be adequate to protect Star Gas Partners from all material expenses related to potential future claims.

The General Partner Has Conflicts of Interest and Limited Fiduciary Responsibilities Which May Permit the General Partner to Favor its Own Interests to the Detriment of Unitholders

Conflicts of interest have arisen and could arise in the future as a result of relationships between the general partner and its affiliates, on the one hand, and Star Gas Partners or any of the limited partners, on the other hand. As a result of these conflicts the general partner may favor its own interests and those of its affiliates over the interests of the Star Gas Partners unitholders. The nature of these conflicts is ongoing and includes the following considerations.

- . The partnership agreement currently contains provisions limiting the general partner's liability and reducing its fiduciary duties to the Star Gas Partners' unitholders, while also restricting the remedies

available to Star Gas Partners unitholders for actions that might, without the limitations, constitute breaches of fiduciary duty. At the completion of the transaction when former Petro stockholders are admitted as limited partners to Star Gas Partners they are deemed to consent to these provisions in the partnership agreement.

- . The general partner is allowed to take into account the interests of parties in addition to Star Gas Partners in resolving conflicts of interest, thereby limiting its fiduciary duty to the Star Gas Partners unitholders.

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- . Except for Irik P. Sevin, who is subject to a non-competition agreement, the general partner's affiliates are not prohibited from engaging in other business or activities, including direct competition with Star Gas Partners.
- . The general partner determines the amount and timing of asset purchases and sales, capital expenditures, borrowings and reserves, each of which can impact the amount of cash that is distributed to Star Gas Partners unitholders.
- . The general partner determines whether to issue additional units or other equity securities of Star Gas Partners.
- . The general partner determines which costs are reimbursable by Star Gas Partners.
- . The general partner controls the enforcement of obligations owed to Star Gas Partners by the general partner.
- . The general partner decides whether to retain separate counsel, accountants or others to perform services for Star Gas Partners.
- . Some officers of the general partner, who will provide services to Star Gas Partners, will also devote significant time to the businesses of the general partner's affiliates and will be compensated by these affiliates for the services rendered to them.
- . The general partner is not restricted from causing Star Gas Partners to pay the general partner or its affiliates for any services rendered on terms that are fair and reasonable to Star Gas Partners or from entering into additional contractual arrangements with any of these entities on behalf of Star Gas Partners.
- . In some instances the general partner may borrow funds in order to permit the payment of distributions.

#### Tax Risks to Petro Common Stockholders

The IRS Could Classify Star Gas Partners as an Association Taxable as a Corporation Which Could Result in Star Gas Partners Paying Tax as an Entity Which Would Substantially Reduce the Cash Available for Distribution to Unitholders

The federal income tax benefit of an investment in Star Gas Partners depends largely on Star Gas Partners' classification as a partnership for federal income tax purposes. Assuming the accuracy of factual matters represented as true by the general partner and Star Gas Partners, counsel is of the opinion that Star Gas Partners has been and will be classified as a partnership for federal income tax purposes. No ruling from the IRS as to classification has been or is expected to be requested. Instead, Star Gas Partners intends to rely on the opinion of counsel, which is not binding on the IRS. Based on the representations of Star Gas Partners and the general partner and a review of applicable legal authorities, counsel is also of the opinion that at least 90% of Star Gas Partners' gross income is

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"qualifying income," within the meaning of Section 7704 of the Internal Revenue Code. This means that Star Gas Partners' income is derived from the

exploration, development, mining or production, processing, refining, transportation or marketing of any mineral or natural resource or other items. Whether Star Gas Partners will continue to be classified as a partnership depends, at least partly, on Star Gas Partners' ability to continue to meet this qualifying income test in the future.

If Star Gas Partners were classified as an association taxable as a corporation for federal income tax purposes, Star Gas Partners would pay tax on its income at corporate rates, which is currently a 35% federal rate. If this were to occur, distributions to the Star Gas Partners unitholders would generally be taxed again as corporate distributions, and no income, gains, losses and deductions would flow through to the Star Gas Partners unitholders. Because a tax would be imposed upon Star Gas Partners as an entity, the cash available for distribution to Star Gas Partners unitholders would be substantially reduced. Treatment of Star Gas Partners as an association that is taxable as a corporation or otherwise as a taxable entity would result in a material reduction in the anticipated cash flow and after-tax return to the Star Gas Partners unitholders, likely causing a substantial reduction in the market value of the units.

There can be no assurance that the law will not change so as to cause Star Gas Partners to be treated as an association taxable as a corporation for federal income tax purposes or otherwise to be subject to entity-level taxation. The partnership agreement provides that, if a law is enacted or existing law is modified or interpreted in a manner that subjects Star Gas Partners to taxation as a corporation or otherwise subjects Star Gas Partners to entity-level taxation for income tax purposes, then specified provisions of the partnership agreement are subject to change, including a decrease in distribution to reflect the impact of that law on Star Gas Partners.

#### A Star Gas Partners Unitholder May Be Required to Pay Taxes on Income From Star Gas Partners Even if He Receives No Cash Distributions

A Star Gas Partners unitholder will be required to pay federal income taxes and, in some cases, state and local income taxes on his allocable share of Star Gas Partners' income, whether or not he receives cash distributions from Star Gas Partners. No assurance can be given that a Star Gas Partners unitholder will receive cash distributions equal to his allocable share of taxable income or even equal to the actual tax liability that results from this allocable share of income. Further, upon the sale of his units, a Star Gas Partners unitholder may incur a tax liability in excess of the amount of cash he receives.

#### Petro Common Stockholders, Other Than Individuals that are U.S. Residents, May Have Adverse Tax Consequences from Owning Units Which May Cause Them to Sell Their Senior Subordinated Units Possibly Driving Down the Market Price

Investment in units by specific tax-exempt entities, regulated investment companies and foreign persons raises issues unique to these persons. For example, for any unitholder that is an organization exempt from federal income tax, including IRAs and other retirement plans, virtually all of the unitholder's allocable share of taxable income in the first few years will constitute unrelated business taxable income and thus will be taxable to this unitholder. A significant portion of the Petro common stockholders may, therefore, find it necessary or advisable to sell the senior subordinated units they acquire in the transaction, possibly driving down the market price of those units.

#### Because Star Gas Partners is a Registered Tax Shelter, Both Star Gas Partners and its Unitholders Face an Increased Risk of an IRS Audit, Which Could Result in Additional Taxes Payable by Star Gas Partners and/or its Unitholders

Star Gas Partners is registered with the Secretary of the Treasury as a "tax shelter." The IRS has issued the following tax shelter registration number to Star Gas Partners: 96026000016. Star Gas Partners cannot assure Star Gas Partners unitholders that it will not be audited by the IRS or that adjustments to its income or losses will not be made. Any Star Gas Partners unitholder owning less than a 1% profit interest in Star Gas Partners has very limited rights to participate in the income tax audit process. Further, any adjustments in Star Gas Partners' tax returns will lead to adjustments in the Star Gas Partners unitholders' tax returns and may lead to audits of Star Gas Partners

unitholders' tax returns and adjustments of items unrelated to Star Gas Partners. Each Star Gas Partners unitholder is responsible for any tax owed as the result of an examination of his personal tax return.

Star Gas Partners Treats a Purchaser of Units as Having the Same Tax Benefits as the Seller; The IRS May Challenge This Treatment Which Could Adversely Affect the Value of the Units

Because Star Gas Partners cannot match transferors and transferees of units and because of other reasons, Star Gas Partners has adopted depreciation and amortization conventions that do not conform with all aspects of specified proposed and final Treasury Regulations. A successful IRS challenge to those conventions could adversely affect the amount of tax benefits available to a purchaser of units and could have a negative impact on the value of the units.

There Are State, Local and Other Taxes That Star Gas Partners Unitholders Will Probably Be Subject to Solely Because of an Investment in the Units

In addition to federal income taxes, Star Gas Partners unitholders will likely be subject to other taxes, such as state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which Star Gas Partners does business or owns property. A Star Gas Partners unitholder will likely be required to file state and local income tax returns and pay state and local income taxes in some or all of the various jurisdictions in which Star Gas Partners does business or owns property and may be subject to penalties for failure to comply with those requirements. The general partner anticipates that substantially all of Star Gas Partners' income will be generated in the following states: Connecticut, Indiana, Kentucky, Maine, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island and West Virginia; however, New Hampshire's tax only applies to interest and dividend income. Each of these states currently imposes a personal income tax. It is the responsibility of each Star Gas Partners unitholder to file all United States federal, state and local tax returns that may be required of him. Counsel has not rendered an opinion on the state or local tax consequences of ownership or sale of units.

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#### CAUTIONARY STATEMENT

Star Gas Corporation provided all information in this proxy statement about Star Gas Partners, Star Gas Propane and its subsidiaries involved in propane operations, and Petro/Mergeco, Inc.

Petro provided all information in this proxy statement about Petro and its subsidiaries in the home heating oil business.

- . You should rely only on the information contained in this document or to which we refer you. We have not authorized anyone to provide you with information that is different.
- . We are not offering to sell or seeking your offer to buy these securities in any state where it is illegal to do so.
- . We are not seeking your proxy in any state where it is illegal to do so.
- . This information may change after \_\_\_\_\_, 1999.

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#### PARTIES

Star Gas Partners and Star Gas Propane

Star Gas Partners is a publicly-traded Delaware limited partnership formed in 1995 to acquire and operate the propane business of Star Gas Corporation and Petro. Star Gas Partners' activities are conducted through Star Gas Propane, L.P., a Delaware limited partnership, and a corporate subsidiary of Star Gas Propane, L.P. Except as the context otherwise requires, references to or descriptions of operations of Star Gas Partners include the operations of Star Gas Propane and any other subsidiary operating partnership or corporation.

Star Gas Partners is primarily engaged in the retail distribution of propane and related supplies and equipment to residential, commercial, industrial, agricultural and motor fuel customers. Star Gas Partners believes that it is the eighth largest retail propane distributor in the United States, serving approximately 166,000 customers from 74 branch locations in the Midwest and Northeast. For the fiscal year ended September 30, 1998, it had total sales on a pro forma basis of approximately \$116.1 million. Propane is used primarily as fuel for space and water heating and cooking by Star Gas Partners' residential and commercial customers, who are the largest portion of Star Gas Partners' customer base. In the Midwest, Star Gas Partners services customers in Indiana, Kentucky, Michigan, Ohio and West Virginia. In the Northeast, Star Gas Partners services customers in Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania and Rhode Island. In addition to its retail business, Star Gas Partners serves approximately 50 wholesale customers from its wholesale operation in southern Indiana.

For the fiscal year ended September 30, 1998, approximately 80% of Star Gas Partners' sales were to retail customers and approximately 20% were to wholesale customers. The retail customers are predominately residential (56%) with the remainder representing those that are agricultural (19%), industrial/commercial (18%) and motor fuel users (7%). Residential sales have a greater profit margin, more stable customer base and less sensitivity to price changes than the other markets served by Star Gas Partners. Sales to residential customers for fiscal 1998 accounted for 66% of Star Gas Partners' gross profit on propane sales, reflecting the higher-margin nature of this segment of the retail market.

Star Gas Partners' business strategy is to maximize its cash flow and profitability, primarily through:

- . internal growth,
- . controlling operating costs and
- . acquisitions that have the potential for generating attractive returns on investment.

The retail propane industry is mature, experiences only limited growth in total demand for the product, and is large and highly fragmented. Currently there are approximately 6,000 independently owned and operated propane distributors. Given these characteristics, Star Gas Partners' acquisition strategy is focused on acquiring smaller to medium-sized local and regional independent propane distributors, particularly those with a relatively large percentage of residential customers, which

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generate higher margins than other types of customers, and those located in the Midwest and Northeast, where Star Gas Partners believes it can attain higher margins than in other areas of the United States.

To facilitate Star Gas Partners' acquisition strategy, Star Gas Propane has bank credit facilities, which consist of a \$25 million acquisition facility and a \$12 million working capital facility. As of September 30, 1998, \$9.0 million was outstanding under the acquisition facility and \$4.8 million under the working capital facility. In addition to borrowings under the bank credit facilities, Star Gas Partners may fund future acquisitions from internal cash flow or from the issuance of additional Star Gas Partners interests or debt securities.

While Star Gas Partners regularly considers and evaluates acquisitions as part of its ongoing acquisition program, Star Gas Partners does not have any present agreements or commitments regarding any material acquisition other than the acquisition of Petro. The general partner has broad discretion in making acquisitions, and it is expected that it will not generally seek approval of acquisitions by Star Gas Partners' limited partners.

For information concerning weather conditions, and other factors that could adversely affect Star Gas Partners' operations, see "Risk Factors--Risks to Petro Common Stockholders--Because Weather Conditions May Adversely Affect the Demand for Propane, Star Gas Partners' Financial Condition Is Vulnerable to Warm Winters."

Additional information about Star Gas Partners is included in Star Gas

Partners' Annual Report on Form 10-K for its fiscal year ended September 30, 1998 and the other documents relating to Star Gas Partners that are incorporated herein by reference. See "Incorporation of Certain Documents By Reference."

## Petro

Petro is a Minnesota corporation engaged primarily in the retail distribution of home heating oil in the Northeast and Mid-Atlantic states. Petro serves approximately 340,000 customers from 24 branch locations including metropolitan Boston, New York City, Baltimore, Providence, and Washington, D.C., with total sales on a pro forma basis of approximately \$450.1 million for the twelve months ended September 30, 1998. Petro believes that it is the largest retail distributor of home heating oil in the United States. As an adjunct to its heating oil business, Petro installs and repairs heating equipment. Petro considers these services, which are typically not designed to generate profits, to be an integral part of its basic fuel oil business and generally does not provide service to any person who is not a home heating oil customer. To a limited extent, Petro also markets other petroleum products, including diesel fuel and gasoline, to commercial customers.

The home heating oil industry is large, highly fragmented and undergoing consolidation, with approximately 3,700 independently owned and operated home heating oil distributors in the Northeast. Petro has been the principal consolidator in this industry and, since 1979, when Petro's current management assumed control, has acquired over 180 retail heating oil distributors. Petro acquires distributors in both new and existing markets and integrates them into the existing operations. Economies of scale are realized from these purchases through its centralization of accounting, data processing, fuel oil purchasing, credit and marketing functions. Petro is well known in the heating oil industry and is regularly contacted by potential sellers. As a result of its growth

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strategy, heating oil sales volume increased from 59.4 million gallons in 1980 to 410.3 million gallons for the year ended December 31, 1997, a compound annual growth rate of 12%. Despite its size, Petro estimates that its customer base represents only approximately 5% of the residential home heating oil customers in the Northeast.

Petro has been implementing an operational restructuring program, including a "brand name" identity program to, among other things, reduce customer attrition and improve operating margins.

Following the completion of the transaction, Petro will operate as a wholly-owned indirect subsidiary of Star Gas Propane.

Additional information about Petro is included in Petro's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and other documents relating to Petro that accompany this proxy statement. See "Incorporation of Certain Documents By Reference."

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## PROXY SOLICITATIONS

### The Star Gas Partners Unitholders Meeting

**Date, Time and Place.** The Star Gas Partners unitholders meeting will be held on March 16, 1999, at 10:00 a.m., EST, at Chase Manhattan Bank, 270 Park Avenue, 11th Floor, Conference Room C, New York, New York.

**Purpose.** The purpose of the Star Gas Partners unitholders meeting is to consider and vote upon the proposal to acquire Petro, the proposal to amend the partnership agreement and the proposal to change the general partner.

**Star Gas Partners Record Date.** The close of business on January 29, 1999 has been fixed by the Star Gas Corporation board as the record date for the determination of Star Gas Partners common unitholders entitled to notice of, and to vote at, the unitholders meeting and any adjournment or postponement of the meeting. On the Star Gas Partners record date, there were 3,858,999 common units issued and outstanding, held by approximately 189 holders of record.

Recommendations of the Special Committee and the Star Gas Corporation Board. The special committee believes that the transaction is in the best interests of the Star Gas Partners public common unitholders and has recommended the transaction to the Star Gas Corporation board. Based on this recommendation, the Star Gas Corporation board unanimously recommends that Star Gas Partners common unitholders vote FOR the unitholders meeting proposals. See "Special Factors--Reasons for the Transaction that the Special Committee Considered; Recommendations of the Special Committee and Star Gas Corporation Board."

Description of Proxies and Procedures for Voting and Revoking Proxies. A proxy card for voting at the unitholders meeting is enclosed with this proxy statement, which is being mailed to all holders of Star Gas Partners common units as of the Star Gas Partners record date. When a proxy card is returned, properly completed, signed and dated, the common units it represents will be voted in accordance with the instructions contained on the proxy card. If a Star Gas Partners common unitholder does not attend the unitholders meeting and does not return the signed proxy card, that holder's shares will not be voted, and this will have the effect of a vote AGAINST the unitholders meeting proposals. Star Gas Partners common unitholders are urged to mark the box on the proxy card to indicate how common units represented by the proxy card are to be voted. An executed proxy card that does not indicate how common units are to be voted will be voted FOR all unitholders meeting proposals.

Star Gas Corporation does not intend to bring any matters before the unitholders meeting other than approval of the unitholders meeting proposals and it does not know of any other matters sought to be brought before the unitholders meeting by others. If any business other than the unitholder meeting proposals is brought before the unitholders meeting, the common units represented by a proxy card will be voted by those persons appointed by Star Gas Corporation to vote the common units represented by the proxy card according to their best judgment. The proxy card also confers discretionary authority on the persons appointed by Star Gas Corporation named on the proxy card to vote the common units represented thereby on any other procedural matter that is properly presented for action at the unitholders meeting.

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The execution of a proxy card will not affect a Star Gas Partners unitholder's right to attend the unitholders meeting and vote in person. A Star Gas Partners unitholder who has given a proxy may revoke it at any time before it is exercised at the unitholders meeting by:

- (a) delivering a written notice of revocation to the Vice President-- Finance of Star Gas Corporation,
- (b) executing and submitting a proxy card bearing a later date or
- (c) attending the unitholders meeting and voting in person.

However, the mere presence at the unitholders meeting by a person who has given a proxy will not revoke that proxy.

Unless the arrangement between the beneficial owner and a broker or other nominee holder provides otherwise, brokers and other nominee holders of common units will not have discretionary authorization to vote common units on any of the matters to be voted on in the absence of instructions from the beneficial owners of those common units. Beneficial owners are therefore urged to provide instructions to those brokers or other nominees concerning how they wish their common units to be voted. Abstentions and broker non-votes are each included in the determination of the number of common units present for quorum purposes. Abstentions and broker non-votes will in effect be votes against the unitholders meeting proposals because approval of these proposals requires the affirmative vote of the holders of a majority of Star Gas Partners all common units.

Cost of Solicitation of Proxies. Petro, which has agreed to reimburse Star Gas Partners for the expenses incurred by Star Gas Partners in the transaction, will bear all costs relating to the solicitation of proxies from the Star Gas Partners common unitholders. Petro will also reimburse banks, brokerage houses, custodians, nominees, fiduciaries, and other persons holding common units in their names or in the names of their nominees for their reasonable expenses in forwarding proxy material to beneficial owners of common units. Star Gas Partners has engaged Morrow & Co., Inc., a professional proxy solicitation firm, to solicit proxies on its behalf. Star Gas Partners will pay this firm a



fee of \$7,500, plus expenses, for this service. In addition, some of the officers, directors and regular employees of Star Gas Corporation may, without additional compensation, solicit proxies by personal interview, telephone, telex, telegram, facsimile or similar means of communication.

**Voting Rights; Vote Required.** Except for specified limitations discussed below, each person deemed to be a "record holder" of Star Gas Partners common units on the Star Gas Partners record date will have a vote according to their percentage interest in Star Gas Partners on that date. Under the partnership agreement as currently in effect, a "record holder" of common units means the person in whose name those common units are registered on the books of the transfer agent for the common units at the opening of business on the Star Gas Partners record date, which includes both persons who have been admitted to Star Gas Partners as limited partners or substitute limited partners and transferees of common units who have executed and delivered to that transfer agent a transfer application as required by the partnership agreement, but who have not yet been admitted to Star Gas Partners as substitute limited partners.

The partnership agreement also provides that common units held in nominee or street name account will be voted by the broker, or other nominee, consistent with the instructions of the beneficial owner, unless the arrangement between the beneficial owner and his nominee provides otherwise. Star Gas Partners is entitled to assume that the nominee is acting at the direction of the beneficial owner without further inquiry.

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The partnership agreement requires the affirmative vote of at least a unit majority in order to approve and adopt each of the Star Gas Partners unitholders meeting proposals to be considered at the unitholders meeting. "Unit majority" is defined in the partnership agreement to mean those persons holding at least a majority of the outstanding common units, other than common units owned by Star Gas Corporation or any of its affiliates.

The transaction cannot be effected unless the Star Gas Partners common unitholders approve each of the proposals presented at the unitholders meeting.

Holder of Star Gas Partners common units should not send any unit certificates with their proxy cards.

**Quorum; Adjournment.** The partnership agreement provides that the presence at the unitholders meeting, either in person or by proxy, of a majority of the outstanding common units is necessary to constitute a quorum at the Star Gas Partners unitholders meeting. The partnership agreement also provides that, in the absence of a quorum, the unitholders meeting may be adjourned from time to time by the affirmative vote of the holders of a majority of the common units represented at the unitholders meeting either in person or by proxy.

The partnership agreement provides that when a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting and a new record date need not be fixed if the time and place of the adjourned meeting is announced at the meeting at which the adjournment is taken, unless that adjournment is for more than 45 days. At an adjourned meeting, Star Gas Partners may transact any business that might have been transacted at the original meeting.

**No Dissenters' Rights.** Star Gas Partners common unitholders do not have dissenters' rights for matters to be voted on at the unitholders meeting.

#### The Petro Special Meeting

**Date, Time and Place.** A special meeting of Petro common stockholders will be held on March 16, 1999, at 11:00 a.m., EST, at Chase Manhattan Bank, 270 Park Avenue, 11th Floor, Conference Room C, New York, New York.

**Purpose.** The purpose of the special meeting is to consider and vote upon the acquisition proposal.

**Petro Record Date.** The Petro board has fixed the close of business on January 29, 1999, as the record date for the determination of stockholders entitled to notice of, and to vote at, the special meeting. Accordingly, only holders of record of shares of common stock at the close of business on the Petro record date will be entitled to vote at the special meeting and any adjournment or

postponement of the special meeting. As of the close of business on the Petro record date, there were issued and outstanding 23,854,751 shares of Class A common stock, held by 198 record holders, and 2,597,519 shares of Class C common stock, held by 24 record holders.

Petro Board Recommendation. The Petro board has determined that the transaction is fair and in the best interests of the Petro public common stockholders. Therefore, it has approved a merger agreement, under which Petro will be merged with a subsidiary of Star Gas Partners and Petro common stockholders will receive senior subordinated units of Star Gas Partners, and an exchange

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agreement, under which Petro common stockholders who are affiliates of Petro will exchange their common stock for senior subordinated units, junior subordinated units and general partner units of Star Gas Partners, and unanimously recommends that the Petro common stockholders vote FOR the acquisition proposal. See "Special Factors--Reasons for the Transaction that the Petro Board Considered; Recommendation of the Petro Board."

Description of Proxies and Procedure for Voting and Revoking of Proxies. A proxy card for voting at the Petro special meeting is enclosed with this proxy statement, which is being mailed to all Petro common stockholders as of the Petro record date. When a proxy card is returned, properly completed, signed and dated, the shares of Petro common stock represented by it will be voted in accordance with the instructions on the proxy card. If a Petro common stockholder does not attend the special meeting and does not return the signed proxy card, that holder's shares will not be voted, and this will have the effect of a vote AGAINST the matters to be voted on at the special meeting. Petro common stockholders are urged to mark the box on the proxy card to indicate how the shares represented by the proxy card are to be voted. An executed proxy card that does not indicate how the shares of common stock are to be voted will be voted FOR approval of the acquisition proposal.

The Petro board does not intend to bring any matters before the special meeting other than approval of the acquisition proposal and it does not know of any other matters sought to be brought before the special meeting by others. If any business other than the acquisition proposal is brought before the special meeting, the shares of common stock represented by a proxy card will be voted by those persons appointed by the Petro board to vote the shares of common stock represented by the proxy card according to their best judgment. The proxy card also confers discretionary authority on the persons appointed by the Petro board named on the proxy card to vote the shares represented by it on any other procedural matter that is properly presented for action at the special meeting.

The execution of a proxy card will not affect a Petro common stockholder's right to attend the special meeting and vote in person. A Petro common stockholder who has given a proxy may revoke it at any time before it is exercised at the special meeting by

- (a) delivering a written notice of revocation to the Secretary of Petro,
- (b) executing and submitting a proxy card bearing a later date or
- (c) attending the special meeting and voting in person.

However, the mere presence at the special meeting by a person who has given a proxy will not revoke that proxy.

Unless the arrangement between the beneficial owner and a broker or other nominee holder provides otherwise, brokers and other nominee holders of Petro common stock will not have discretionary authorization to vote shares of Petro common stock on any of the matters to be voted upon in the absence of instructions from the beneficial owners of that common stock. Beneficial owners are therefore urged to provide instructions to those brokers or other nominees concerning how they wish their common stock to be voted. Abstentions and broker non-votes are each included in the determination of the number of shares of common stock present for quorum purposes. Abstentions and broker non-votes will in effect be votes against the acquisition proposal because approval of the acquisition proposal requires the affirmative vote of the holders of a majority of all outstanding shares of Petro common stock.

Petro common stockholders should not send any stock certificates with their proxy cards. If the transaction is effected, Petro common stockholders will be provided with transmittal materials for the surrender of Petro stock certificates in exchange for certificates representing senior subordinated units of Star Gas Partners or cash payments, as applicable.

Cost of Solicitation of Proxies. Petro will bear all costs relating to the solicitation of proxies from Petro common stockholders. Petro will also reimburse banks, brokerage houses, custodians, nominees, fiduciaries, and other persons holding Petro common stock in their names or in the names of their nominees for their reasonable expenses in forwarding proxy material to beneficial owners of common stock. Petro has engaged Morrow & Co., Inc. to solicit proxies on behalf of Petro. Petro will pay that firm a fee of \$7,500, plus expenses, for this service. In addition, some of the officers, directors and regular employees of Petro may, without additional compensation, solicit proxies by personal interview, telephone, telex, telegram, facsimile or similar means of communication.

Voting Rights; Vote Required. All Petro common stockholders of record at the close of business on the Petro record date are entitled to vote at the special meeting. Holders of each class of Petro common stock, voting as a separate class, other than the Class B common stock, will have one vote for each share for the acquisition proposal. The affirmative vote of the holders of a majority of the Petro Class A common stock outstanding as of the Petro record date, voting as a class, and the affirmative vote of the holders of the Petro Class C common stock outstanding as of the Petro record date, voting as a class, other than shares held by the directors and officers of Petro and their affiliates, is required to approve the acquisition proposal.

The directors and executive officers of Petro and affiliates beneficially owned, as of the Petro record date, 11,843,221 shares of common stock, excluding all options to purchase shares of Class A common stock and Class C common stock.

Directors and executive officers of Star Gas Corporation and their affiliates, other than those persons who were also directors or executive officers of Petro, did not beneficially own, as of the Petro record date, any shares of Petro common stock, and no shares of Petro common stock were owned by Star Gas Partners or Star Gas Corporation.

The transaction cannot be effected without approval of the acquisition proposal by the Petro common stockholders.

Voting Rights of Holders of Petro Preferred Stock. The acquisition proposal also requires the approval of the holders of a majority of all shares of Petro's junior preferred stock, public preferred stock and private preferred stock, outstanding as of the Petro record date, each voting separately as a class. The holders of a majority of each class of Petro preferred stock outstanding as of the Petro record date have granted irrevocable proxies to Petro or have agreed to vote their shares for the acquisition proposal.

As of the Petro record date, no shares of Petro preferred stock were beneficially owned by any of the directors and executive officers of Petro or Star Gas Corporation or any of their affiliates or by Star Gas Partners or Star Gas Corporation.

Class B Shares Will Remain Outstanding. There are 11,228 shares of Class B common stock currently outstanding, representing less than .1% of the issued and outstanding shares of common stock of Petro. The Class B common stock will remain outstanding following the completion of the merger.

Quorum; Adjournment. Petro's restated bylaws provide that the presence at the special meeting, either in person or by proxy, of a majority of each class of Petro common stock is necessary to constitute a quorum at the special meeting. Petro's restated bylaws also provide that in the absence of a quorum, the special meeting may be adjourned from time to time by the affirmative vote of the holders of a majority of shares of the common stock represented at the special meeting either in person or by proxy.

Petro's restated bylaws provide that when a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting and a new record date need not be fixed if the time and place of the adjourned meeting is announced at the meeting at which the adjournment is taken. At an adjourned meeting at which a quorum is present, Petro may transact any business that might have been transacted at the original meeting.

Dissenters' Rights. Under Sections 302A.471 and 302A.473 of the Minnesota Business Corporation Act, included in full as Annex F to this proxy statement, Petro common stockholders, other than those who have agreed to vote for the acquisition proposal or who have granted irrevocable proxies to Petro to vote for the acquisition proposal at the special meeting, have the right to dissent and to obtain payment for the "fair value" of their shares, if corporate actions such as the merger should occur.

Petro common stockholders who wish to exercise dissenters' rights must comply fully with the requirements of Sections 302A.471 and 302A.473 of the Minnesota Business Corporation Act. Accordingly, Petro common stockholders wishing to dissent are urged to read carefully "Dissenters' Rights" in this proxy statement and its attached Annex F, and to consult their own legal advisors.

Among other things, Section 302A.473 requires that a Petro common stockholder wishing to exercise dissenters' rights must:

- (1) file with Petro, before the vote on the transaction at the special meeting, a written notice of intent to demand payment of fair value for that holder's common stock, and
- (2) not vote in favor of the proposal to acquire Petro.

If the acquisition proposal is approved at the Petro special meeting, Petro common stockholders wishing to dissent from the merger must comply fully thereafter with a series of additional requirements under Section 302A.473 of the Minnesota Business Corporation Act.

Failure to follow the procedures in Annex F may result in a termination or loss of dissenters' rights under Sections 302A.471 and 302A.473 of the Minnesota Business Corporation Act.

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#### SPECIAL FACTORS

##### Background of the Transaction

###### The Genesis of the Transaction and Related Events

In May 1997, Mr. Kevin McCarthy, then of Smith Barney Inc., contacted Irik Sevin, Chairman of the Board and Chief Executive Officer of Petro, to determine Petro's interest in a proposed transaction consisting of a strategic business combination with Star Gas Partners. Mr. McCarthy, who had previously been associated with PaineWebber Incorporated, had provided investment banking services to, and was very familiar with, both Petro and Star Gas Partners. The initial contact was made at Mr. McCarthy's initiative based on his perception that the two entities could benefit from a business combination.

On May 2 and May 7, 1997, Mr. McCarthy and other Smith Barney bankers presented the following concept to Mr. Sevin. In their view, Petro's common stock was not fully valued in the public market place due, in large measure, to a lack of research analyst coverage and investor interest. Mr. McCarthy noted that despite Petro's preeminent position in the home heating oil industry, the public market had always had a difficult time valuing its common stock due to:

- . there being no other comparable publicly-traded companies;
- . its being a cash flow oriented company with no earnings per share, which is a standard measure used to value publicly-traded common stocks; and-
- . its small equity market capitalization.

Mr. McCarthy went on to note that while Petro was the principal consolidator of the home heating oil industry, its capital structure was limiting its full growth potential. He suggested that converting Petro into a publicly-traded limited partnership format would address these various issues. He noted that

Petro would benefit from the relatively broad research coverage provided the relatively large number of publicly-traded limited partnerships. In addition, these entities were valued on a cash flow basis, similar to Petro's financial orientation, and that the combined Petro/Star Gas Partners publicly-traded limited partnership would have a significantly increased market capitalization. Also of significance was that the publicly-traded limited partnership format would give Petro access to lower cost capital and increase its financial flexibility to fund its growth-through-acquisition strategy.

Mr. McCarthy went on to note that he believed that combining Star Gas Partners and Petro could also significantly benefit Star Gas Partners. While Star Gas Partners had been performing relatively well operationally, there had been a significant increase in competition for propane acquisitions, the major source of Star Gas Partners' growth. This not only was impacting the number of acquisitions Star Gas Partners could make but was also increasing the purchase price multiples paid for propane companies. Both of these factors combined to limit the potential growth in Star Gas Partners' annual cash flow from its acquisition program. The combination with Petro could provide an additional source of acquisition opportunities at lower purchase price multiples resulting from Petro's preeminent position in the home heating oil industry and the significantly lower level of competition in that industry for acquisitions. Combining Petro's acquisition opportunities with

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Star Gas Partners' access to lower cost capital suggested the combination of the two companies made strategic sense.

During May and June 1997, Mr. Sevin had several meetings and telephone calls with representatives of Smith Barney and other financial and legal advisors concerning various business, tax and regulatory aspects of the proposed transaction.

On June 5, 1997, at a Petro board meeting, Mr. Sevin described the proposed transaction and its benefits. In addition to the original benefits outlined by Mr. McCarthy, the proposed transaction was now structured to refinance Petro's relatively high-cost long-term debt and preferred stock with lower cost partnership equity and a new issue of debt further increasing the combined entity's distributable cash flow.

Mr. Sevin informed the Petro board that not all aspects of the proposed transaction had been fully developed and that he had not made any presentation concerning the combination to the Star Gas Corporation board. After discussing the matter, a consensus was reached that the proposed transaction seemed interesting and that Mr. McCarthy should be invited to make a formal presentation to the Petro board.

Mr. McCarthy Presents the Proposed Transaction to the Petro Board of Directors

On July 24, 1997, the Petro board met to hear Mr. McCarthy make a formal presentation regarding the proposed transaction. Initially, Mr. McCarthy explained that he had terminated his relationship with Smith Barney and had reassociated with PaineWebber as a managing director in its investment banking division. Mr. McCarthy then reviewed the overall strategic rationale for the proposed transaction.

Mr. McCarthy went on to describe the proposed transaction's structure indicating that it would have two fundamental components. The first was Petro's becoming a wholly-owned subsidiary of Star Gas Partners, by virtue of the Petro public common stockholders and a limited number of Petro affiliated common stockholders exchanging their shares for publicly-traded Star Gas Partners senior subordinated units and a specified number of Petro shares being exchanged for Star Gas Partners junior subordinated units that would not be publicly traded. He indicated that in order to provide the Petro public common stockholders with a publicly-traded partnership unit with sufficient earnings coverage, there needed to be a specified number of units junior to those securities. The second component of the proposed transaction was the refinancing of Petro's outstanding, relatively high-cost debt and preferred stock through the sale of lower-cost, new partnership equity and debt.

Mr. McCarthy then enumerated the benefits of the proposed transaction to Star Gas Partners common unitholders as well as to Star Gas Partners. Mr. McCarthy briefly outlined the following benefits to the Star Gas Partners common unitholders:

.a significant increase in distributable cash flow,  
.an increase in the annualized minimum quarterly distribution from \$2.20 to \$2.30,  
.improved distribution coverage,

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.larger equity market capitalization and resulting liquidity to Star Gas Partners unitholders and  
.improved growth potential in an otherwise relatively stagnant market.

Mr. McCarthy went on to note that the most important considerations in valuing public limited partnerships are their growth, ability to make distributions, and size. The combination of Star Gas Partners and Petro would improve Star Gas Partners' measures in each of these areas.

After review and discussion by the Petro board of this concept, it authorized Mr. Sevin to consult further with PaineWebber concerning the proposed transaction, and to present it to the Star Gas Corporation board. In this regard, it was determined that it would be most appropriate to approach the two members of the Star Gas Corporation board who were not officers, directors or employees of Petro to ascertain their views about the proposed transaction, since the remaining members of that board were also directors or officers of Petro. The Petro board recognized that in light of the potential conflict of interest, the proposed transaction should be analyzed and approved by the non-Petro members of the Star Gas Corporation board.

The Petro board also instructed Petro's management to closely monitor the impact of Petro's recently instituted regionalization and product branding programs as it believed that Petro's ability to operate more efficiently and with more customer sensitivity would be an important element to the success of any business combination.

PaineWebber Informally Discusses the Proposed Transaction with the Non-Petro Directors of Star Gas Corporation

On September 2, 1997, at the request of Mr. Sevin, Mr. McCarthy met with the non-Petro directors of the Star Gas Corporation board, Mr. William Nicoletti and Ms. Elizabeth Lanier, concerning the combination of Petro and Star Gas Partners. Mr. Nicoletti and Ms. Lanier indicated that they had a number of questions concerning the proposed transaction, but that they believed that Star Gas Partners would be willing to consider a combination.

Petro Considers Alternative Transactions

In December 1997 and January 1998, Petro also began to explore other transactions. Mr. Sevin met with representatives of CNG Energy Services Corporation, a subsidiary of Consolidated Natural Gas Company, a large natural gas utility, to explore the possibility of forming a joint venture acquisition corporation. These discussions did not progress beyond the preliminary stages. In addition, Mr. Sevin met with an investment banking firm which had a relationship with Enron Capital and Trade Corp., a subsidiary of Enron Corp., that was seeking investment opportunities. Mr. Sevin believed that Petro's large customer base would provide this company with cross-marketing potential adding to the attractiveness of forming a joint venture acquisition corporation with Petro. After discussions held in January 1998, this company indicated that it was not interested in forming this joint venture with Petro.

PaineWebber Formally Presents the Proposed Transaction to the Star Gas Corporation Board

On January 26, 1998, Mr. McCarthy made a formal presentation concerning the proposed transaction to the Star Gas Corporation board. He first described the underlying rationale of the proposed transaction.

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Mr. McCarthy then detailed the proposed transaction's structure:

- . Petro would combine with Star Gas Partners, becoming a wholly-owned subsidiary of Star Gas Propane.
- . The Petro public common stockholders, as well as specified affiliated Petro common stockholders, would receive publicly-traded senior subordinated units of Star Gas Partners.
- . Specified affiliated Petro common stockholders would be required to exchange their shares for Star Gas Partners junior subordinated units that would be junior to the senior subordinated units offered the Petro public common stockholders and would not be publicly traded. Mr. McCarthy indicated that this condition was required to provide sufficient earnings coverage of the Star Gas Partners senior subordinated units to make them sufficiently attractive in the marketplace.
- . In determining the exchange ratio for Petro's common stock and how many Star Gas Partners units would be given to the Petro common stockholders, the following values were used:
  - Petro's common stock was being valued at \$3.15 per share.
  - The Star Gas Partners senior subordinated units to be given to the Petro public common stockholders were valued on the basis of their having an 11.5% yield representing an approximately 10% discount from the Star Gas Partners common unit value.
  - The Star Gas Partners junior subordinated units and general partner units were valued at an assumed 14% yield representing a 250 basis point premium over the Star Gas Partners senior subordinated units based on their additional level of subordination and illiquidity.
- . As a result of the anticipated immediate accretion in distributable cash flow resulting from the transaction, Star Gas Partners would increase its minimum quarterly distributions per unit from \$0.55 to \$0.575, or from \$2.20 to \$2.30 per unit annually.
- . The right to receive incentive payments, which has historically been provided to the general partner upon meeting specified performance tests, would be reallocated to all Petro common stockholders by distributing those rights among the Star Gas Partners senior subordinated units, junior subordinated units and general partner units, pro rata.
- . The general partner of Star Gas Partners would be a newly-organized limited liability company that would be owned by affiliates of Petro.
- . The Star Gas Partners senior subordinated units and junior subordinated units would be subordinated to the distribution and liquidation rights of the Star Gas Partners common units until Star Gas Partners earned \$2.30 per unit in distributable cash flow for three years, at which time the subordination period would end.

Mr. McCarthy then described, as he had done with the Petro board, the benefits of the proposed transaction to the Star Gas Partners public common unitholders and the Petro public common stockholders.

In response to a question from the directors, Mr. McCarthy indicated that, based on a preliminary review, he did not believe that a combined propane/heating oil publicly-traded limited partnership would have a negative perception in the public market. He considered growth and ability to make distributions the key considerations for valuing a publicly-traded limited partnership, and

Petro's growth potential would more than offset any impact of its having non-propane activities. In addition, he pointed out that several diversified publicly-traded limited partnerships exist and perform favorably compared to their peers.

In response to a question concerning Petro's operating performance, Mr. McCarthy indicated that while the benefits of Petro's regionalization and branding programs had begun to be realized, the implied value has yet to be factored into Petro's stock price. However, these improvements should ultimately benefit the combined entity and its future value.

## The Star Gas Corporation Board Appoints the Special Committee to Consider the Proposed Transaction

Based on this presentation and the ensuing discussion, the Star Gas Corporation board believed that there was a consensus to proceed with further consideration of the proposed transaction. Because all of the directors of Star Gas Corporation were also directors or officers of Petro, other than Mr. Nicoletti and Ms. Lanier, the Star Gas Corporation board assigned the task of exploring the proposal to them. It was decided that these two should act as a special committee to ensure that the interests of the Star Gas Partners public common unitholders were independently represented in the proposed transaction. Ms. Lanier then proposed that the special committee retain independent financial advisors and legal counsel to assist in a review of the proposed transaction. The Star Gas Corporation board authorized the special committee to retain an independent financial advisor and legal counsel as they deemed appropriate.

In January and February 1998, the special committee invited A.G. Edwards along with one other investment banking firm to present its qualifications to serve as financial advisor to the special committee. Following several meetings and discussions with A.G. Edwards and the other candidate, on March 23, 1998 the special committee engaged A.G. Edwards as its financial advisor. The special committee had previously retained Baker & Botts, L.L.P. as its legal counsel.

On February 4, 1998, Petro's management met with investment bankers at Donaldson Lufkin & Jenrette to discuss the proposed terms for the refinancing or restructuring of Petro's public and private debt and preferred stock in the proposed transaction.

### Mr. Sevin Reviews the Status of the Proposed Transaction with the Petro Board in February 1998

At a February 23, 1998 Petro board meeting, Mr. Sevin updated the Petro board on the discussions with the special committee regarding the proposed transaction, as well as developments with other energy companies.

The Petro board agreed that Mr. Sevin should continue to pursue the proposed transaction, as well as other investment alternatives. The Petro board then asked one of its members to assist Mr. Sevin in structuring these alternatives.

In March 1998, Mr. Sevin met with each of Petro's three commercial banks separately to determine if the mergers and acquisitions or utility departments of those institutions could identify any public utility that was seeking to invest in deregulated energy activities or any other party that might be interested in investing in or forming a joint venture with Petro.

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### Petro Commences Discussions with the Special Committee

On March 10, 1998, Petro's representatives met with the special committee to discuss certain initial questions that had arisen from its discussions with potential financial advisors. Petro's representatives wanted to review several matters with the special committee, including: Petro's capitalization structure, the improvement in Petro's customer attrition rate, its ability continue increasing its gross profit margins and to acquire new businesses at historic rates.

### Petro Continues to Pursue Other Investment Alternatives

In March and April 1998, Petro continued to pursue other investment alternatives. In April 1998, Petro's management met with representatives of two public utilities, AllEnergy Marketing Company L.L.C. and Connective Power Delivery, to discuss with each a possible joint venture. While Connective indicated that it was not interested in pursuing the matter, AllEnergy, which had previously expressed an interest in purchasing Petro's heating oil operations, indicated that it could possibly be interested in a joint venture. However, its conditions to pursuing further discussions of such a venture were determined to be unacceptable and discussions were ended.

During May and June 1998, Petro had several discussions and meetings with representatives of Providence Energy Corporation concerning a proposed



investment in Petro, either pursuant to a joint venture or the purchase of specified Petro operations. However, this utility determined it was not interested in an investment in Petro and Petro indicated it was not interested in divesting any of its operations.

#### Petro Retains Dain Rauscher Wessels to Provide a Fairness Opinion to Petro's Public Common Stockholders

In April 1998, Petro began a search for an independent investment banking firm with expertise in the area of publicly-traded partnerships that could render an opinion as to the fairness, from a financial point of view, of the consideration to be received by the Petro public common stockholders in the proposed transaction. On April 22, 1998, Mr. Sevin met with representatives of Dain Rauscher Wessels. On May 14, 1998, Dain Rauscher Wessels was formally engaged, and, on May 28 and May 29, 1998, Dain Rauscher Wessels met separately with the management of Star Gas Partners and Petro in order to begin its due diligence with respect to Star Gas Partners and Petro.

#### A.G. Edwards Prepares Preliminary Status Report

On April 28, 1998, A.G. Edwards met with the special committee and members of Star Gas Partners' management to discuss and present the status of A.G. Edwards' due diligence efforts and preliminary conclusions. A.G. Edwards recommended that the special committee proceed in its analysis and review of a potential business combination with Petro and recommended that A.G. Edwards begin preparation of a preliminary status report that could be shared with Petro and PaineWebber. The preliminary status report would include the special committee's preliminary views on the structure of a potential transaction as well as its preliminary thoughts on a merger agreement and required changes to the partnership agreement. The special committee agreed.

On May 4, 1998, A.G. Edwards delivered the preliminary status report and an updated and revised preliminary financial analysis to the special committee. The special committee authorized A.G. Edwards to discuss the preliminary status report with both Petro and PaineWebber.

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On May 5, 1998, at a meeting of the Star Gas Corporation board, the special committee advised the board as to the status of the preliminary status report and indicated A.G. Edwards' preliminary views as to the valuation of Petro.

#### The Special Committee and Petro Meet to Review the Preliminary Status Report and to Negotiate the Proposed Transaction

On May 7, 1998, the special committee and A.G. Edwards met with Petro and PaineWebber to discuss the preliminary status report and to begin negotiation of a potential combination.

The special committee took three firm negotiating positions at the May 7 meeting, which were reflected in the preliminary status report.

First, the special committee required that the minimum quarterly distribution to be paid to Star Gas Partners common unitholders be raised from \$2.20 to \$2.30 annually.

Second, the special committee took the position that no distributions would be paid to the holders of Star Gas Partners senior subordinated units, junior subordinated units and general partner units following a transaction that were not earned by the actual performance of the combined business following the transaction.

Third, the special committee took the position that a \$3.15 valuation per Petro share was too high, and that the special committee would only look at a combination if the price was in the \$2.00 per share range. In support of this third position, A.G. Edwards discussed with Petro and PaineWebber the basis for its valuation of Petro's common stock at \$2.00 per share.

Mr. Sevin responded that he could agree to the revised minimum quarterly distribution of \$2.30 and to the proposal that during the subordination period holders of Star Gas Partners senior subordinated units, junior subordinated units and general partner units would only receive distributions out of distributable cash generated following the closing of the transaction. However, he indicated he could not agree to valuing Petro's common stock at \$2.00 per

share, indicating his belief that this valuation was unfairly low. He pointed out that while there are many criteria that could be used in determining the appropriate valuation for Petro's common stock, he believed the most important was the accretion to Star Gas Partners resulting from the acquisition of Petro. While Mr. Sevin questioned some of the assumptions upon which A.G. Edwards views were based, he noted that even using the most conservative assumption, a \$2.00 value would, based on the projections available at the time, result in projected accretion of approximately \$.62 per unit, which could grow to over \$1.00 per unit. Mr. Sevin indicated that this level of accretion was excessive and unwarranted and that the approximate \$.40 per unit projected accretion resulting from a \$3.15 per share price was certainly more appropriate and would still make this combination significantly attractive to the Star Gas Partners common unitholders. This was especially true given the greater growth potential provided by Petro which would, over time, increase the accretion to over \$1.00 per unit even at a \$3.15 valuation.

PaineWebber also indicated to A.G. Edwards that the \$3.15 per unit valuation did not represent an excessive premium to market value when Petro's average stock performance for the last twelve months was considered. PaineWebber noted that the suspension of Petro's common stock dividends following the unusually warm weather of the first quarter of 1998 had lowered the short-term trading

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prices of Petro's common stock despite the significant improvements in Petro's operating results. In addition, PaineWebber asked A.G. Edwards to consider market statistics prepared by PaineWebber that indicated that the merger premiums for stocks priced at less than \$5.00 per share were generally greater than the merger premiums for higher priced shares.

In an attempt to bridge the valuation gap, the parties discussed having Star Gas Partners issue additional units to the Petro common stockholders after the transaction if Petro met specified financial goals.

At the conclusion of this meeting, the parties agreed to review their respective positions.

On May 19, 1998, representatives of A.G. Edwards met with representatives of PaineWebber and Petro in an attempt to reach an agreement on the appropriate price per share to be used to value the consideration paid to the Petro common stockholders. PaineWebber provided A.G. Edwards with information concerning comparable acquisition multiples to demonstrate that a \$3.15 per share price was appropriate. In addition, PaineWebber indicated that Petro's first quarter operating performance was better than the budgeted figures originally provided A.G. Edwards, which further suggested that the \$3.15 valuation was appropriate.

In order to bridge the gap in valuation, the parties began discussing a \$2.50 per share value with Petro's ability to obtain additional value through the issuance of additional senior subordinated units after the closing if it met specified earnings criteria. The concept was that Petro would be able to receive an additional total of 909,000 units, at a rate of 303,000 per year in each of three years that Petro provided Star Gas Partners with \$.50 per unit of accretion in distributable cash flow over the level Star Gas Partners would earn had it not combined with Petro. It was indicated that these additional units, if earned, would be issued pro rata to the holders of Star Gas Partners senior subordinated units, junior subordinated units and general partner units.

#### A.G. Edwards Prepares a Preliminary Draft Proposal for the Transaction

On May 20, 1998, the special committee met by conference telephone call with A.G. Edwards and Baker & Botts to discuss its preliminary analysis, updated by A.G. Edwards, and the status of negotiations. The group also discussed a preliminary draft proposal prepared by A.G. Edwards for submission to Petro. The special committee instructed A.G. Edwards to revise the preliminary draft proposal. On May 21, the special committee met again by conference telephone call with Baker & Botts to review the proposal. A.G. Edwards submitted a revised preliminary draft proposal to the special committee on May 26, 1998 and the special committee instructed A.G. Edwards to submit the proposal to Petro. The proposal dated May 26, 1998 included the following principal terms:

- . In exchange for all of Petro's issued and outstanding shares of common stock, Star Gas Partners would issue an aggregate of 2,718,000 senior subordinated units, 524,000 junior subordinated units and 289,000 general partner units, reflecting a valuation for the Petro common stock of \$2.50

per share. In conjunction with the issuance of these new units, Star Gas Partners would in effect cancel the existing 2,396,078 subordinated units and the 2% combined general partner interest, both owned by Petro.

- . Star Gas Partners would issue up to 303,000 additional senior subordinated units per year, up to a maximum of 909,000 additional senior subordinated units, pro rata to the holders of its

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senior subordinated units, junior subordinated units and general partner units in each year that Petro achieves specified levels of accretion in the future.

- . The amount of new equity required to be raised by Star Gas Partners and new debt required to be raised by a subsidiary of Star Gas Partners in order to refinance Petro's existing debt and preferred stock could not exceed certain maximum amounts and were subject to specified price and expense limitations.
- . The partnership agreement would be amended to prohibit the payment of distributions to the holders of Star Gas Partners senior subordinated units, junior subordinated units and general partner units from any source other than distributable cash generated during the last twelve months.
- . The cost of refinancing Petro's outstanding debt and redeeming Petro's preferred stock could not exceed specified limits.

The management of Petro believed that, with some further modifications, the preliminary draft proposal could form the basis of an agreement. With that in mind, Petro began focusing its efforts on reaching an agreement with institutional holders of its long-term debt and preferred stock on a basis that would comply with the terms of the preliminary draft proposal.

#### Petro Negotiates the Refinancing of its Public and Private Debt and Preferred Stock

During June and July 1998, representatives of Petro undertook negotiations with institutional holders of its public and private debt and preferred stock to obtain the right to refinance these securities.

In August 1998, Petro reached an agreement with institutional holders of \$149 million or 63.1% of Petro's 10 1/8% Subordinated Notes due 2003, 12 1/4% Subordinated Debentures due 2005 and 9 3/8% Subordinated Debentures due 2006 and 12 7/8% Series B Exchangeable Preferred Stock, to permit the redemption of those securities at the closing of the proposed transaction. The accepting holders included the holders of 100% of 12 7/8% preferred stock. This agreement allows Petro to redeem its 9 3/8% debentures, 10 1/8% notes and 12 1/4% debentures at 100%, 100% and 103.5% of principal amount, and to redeem its 12 7/8% preferred stock at \$23 per share. In consideration for this early redemption right, Petro agreed to issue to those holders 3.3732 shares of newly issued junior convertible preferred stock for each \$1,000 in principal amount or liquidation preference of such securities.

Petro subsequently offered to the remaining holders of these securities the same right of early redemption under the same terms and conditions as agreed to by the consenting holders. This proposal was made through an exchange offer that terminated on September 24, 1998 with an aggregate acceptance rate of more than 95%.

#### Other Activities Undertaken in Connection With the Proposed Transaction

Formal Financial Advisory Agreement with PaineWebber. On June 3, 1998, following consultation with a number of Petro board members, the management of Petro entered into a formal financial advisory agreement with PaineWebber.

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#### Meeting with Hanseatic on Terms of the Exchange

Also, on June 3, 1998, Mr. Sevin met with the representatives of Hanseatic

Americas LDC, a Bahamian limited duration company indirectly controlled by Hanseatic Corporation, a majority of the shares of capital stock of which were owned by Wolfgang Traber, a Petro board member, and in which another Petro board member, Paul A. Biddelman, acts as President. Hanseatic Americas and Hanseatic Corporation in the aggregate owned more than 1.9 million shares of Petro common stock. The purpose of the meeting was to determine the Hanseatic companies' willingness to exchange their Petro common stock for Star Gas Partners junior subordinated units and general partner units, rather than the Star Gas Partners senior subordinated units being exchanged with the Petro public common stockholders. Specified other affiliates had previously indicated an unwillingness to accept junior and illiquid securities at the value suggested by PaineWebber. The Hanseatic companies' assent was necessary, so that when combined with the shares of Petro common stock that Irik Sevin and Audrey Sevin were prepared to convert into Star Gas Partners junior subordinated units and general partner units, a total of the approximately 5.3 million shares of Petro common stock required by Star Gas Partners' proposal could be accumulated. While Mr. Traber indicated a willingness to undertake an exchange in order to accommodate completion of the transaction, he further wanted the independent assent of the major investors in these companies. An agreement was reached that these representatives would support the exchange.

#### Meeting with Star Gas Board of Directors on the Status of the Transaction

On July 27, 1998, at a meeting of the Star Gas Corporation board, Mr. Sevin, on behalf of Petro, and the special committee informed the board of the progress of the discussions and negotiations between PaineWebber on behalf of Petro and A.G. Edwards on behalf of the special committee. Mr. Sevin also informed the Star Gas Corporation board of the results of Petro's negotiations with the institutional holders of its public and private debt and preferred stock.

Mr. Sevin advised the Star Gas Corporation board that it was his understanding that A.G. Edwards would produce a revised proposal in the form of a draft term sheet to reflect the discussions and negotiations.

Mr. Sevin also informed the board that he had received a telephone call from a director of Heritage Propane Partners, L.P., another publicly-traded propane limited partnership, to inquire as to whether Star Gas Partners would be interested in being acquired by Heritage. The purchase price indicated did not reflect any premium over the current market price of the Star Gas Partners common units and the valuation of Petro's subordinated units and general partner interests was not acceptable to Petro. After discussion, it was decided that Mr. Sevin should respond that Star Gas Partners was not interested in the proposal.

#### A.G. Edwards Prepares and Forwards the Revised Proposal to Petro

On July 28, 1998, following additional telephonic discussions with PaineWebber to further refine the terms of the revised proposal, A.G. Edwards, on behalf of the special committee, forwarded the revised proposal to the Star Gas Corporation board, the Petro board and PaineWebber for each of their review and consideration. The revised proposal clarified that the Star Gas Partners general partner units would be subordinated to both its common units and senior subordinated units, but was otherwise similar to the preliminary draft proposal.

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On July 29, 1998, Dain Rauscher Wessels met with representatives of Petro to review the revised proposal and for Dain Rauscher Wessels to undertake further due diligence.

#### The Petro Board Reviews the Revised Proposal

On August 3, 1998, at a meeting of the Petro board, which was attended telephonically by Dain Rauscher Wessels as well as PaineWebber and legal counsel, Mr. Sevin stated that it was important at this time to apprise the directors of all of the details of the revised proposal and to answer any questions that they may have, since the matter might be brought to a formal vote within the next week to ten days.

The Petro board then discussed various aspects of the proposed transaction as well as the fiduciary obligations of the Petro board and those of the Petro

directors who also serve as directors of Star Gas Corporation. In response to questions regarding these responsibilities, Mr. Michael Rosenwasser, of Andrews & Kurth L.L.P., co-counsel to Petro, indicated that the special committee would have the overall responsibility for negotiating, reviewing and deciding whether to recommend the proposed transaction to the Star Gas Corporation board and to the public common unitholders. Mr. Rosenwasser further indicated that the law firms of Phillips Nizer Benjamin Krim & Ballon LLP and Andrews & Kurth would be representing Petro and its board and that the law firm of Baker & Botts would be representing the special committee.

A question was raised as to whether it would be advisable to appoint an independent committee of the Petro board to represent the Petro public common stockholders. After discussion, it was determined that there was doubt as to whether an unquestionably independent committee could be constituted. Instead, the Petro board determined that Petro would not proceed with the proposed transaction without the approval of the holders of a majority of the shares of Petro's Class A common stock owned by non-affiliates and unless Petro received a favorable fairness opinion from Dain Rauscher Wessels as to the consideration to be received by the Petro public common stockholders.

On August 10, 1998, Petro entered into an agreement with specified affiliated Petro Class C common stockholders to approve the transaction. Such approval was required under a Petro stockholders' agreement among the holders of Petro's Class C common stock.

#### The Special Committee Approves the Revised Proposal

On August 11, 1998, the Star Gas Corporation board by written consent authorized the special committee to assume responsibility for all matters relating to the proposed transaction, including the power and authority to negotiate the terms of the transaction subject to those additional actions by the Star Gas Corporation board as may be necessary or advisable under applicable law. Following the grant of that authority, the special committee approved the revised proposal and transmitted the revised proposal to the Petro board.

#### The Petro Board Approves the Revised Proposal

The Petro board met on August 13, 1998 to consider and vote upon the revised proposal. Mr. Sevin reviewed with the Petro board some minor changes which had been made to that document after to the August 3, 1998 meeting, and indicated that it had been approved by the special committee earlier in the week. After discussion, the Petro board unanimously approved the revised proposal.

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On August 14, 1998, Petro and Star Gas Partners issued a joint press release announcing that they had reached an agreement-in-principle concerning the proposed transaction.

During August, September and October 1998, the special committee, in conjunction with its legal counsel and financial advisors, negotiated the terms of a merger agreement and exchange agreement with Petro and its legal counsel and financial advisors. During the course of these negotiations, the special committee required, and Petro ultimately agreed, as a condition of the transaction, that

- (1) no distributions could be made on any Star Gas Partners subordinated units until August 15, 1999;
- (2) specified earnings tests had to be achieved for any distributions to be made on that date or on the next anticipated distribution date of November 15, 1999; and
- (3) as of the closing of the transaction, Petro had to have specified minimum working capital levels substantially higher than was required in the preliminary draft proposal.

#### The Special Committee Recommends and the Star Gas Corporation Board Approves the Transaction

On October 16, 1998 the special committee met with its financial advisors and legal counsel to consider the transaction. At this meeting, A.G. Edwards delivered its oral and written opinion that the transaction was fair, from a

financial point of view, to the Star Gas Partners public common unitholders. The special committee then entered into a full discussion of the financial and legal aspects of the transaction with its financial and legal advisors. On October 19, 1998, the special committee met again with its financial and legal advisors and, after discussion and based on the advice of its advisors and the fairness opinion of A.G. Edwards, unanimously voted to recommend the transaction to the Star Gas Corporation board for its approval subject to its legal advisors negotiating the last remaining details of the merger agreement, none of which were deemed material. On October 19, 1998, based on that recommendation, the Star Gas Corporation board approved the merger agreement and exchange agreement and authorized the officers of Star Gas Corporation to execute and deliver the merger agreement and exchange agreement.

#### The Petro Board Approves the Transaction

On October 6, 1998, Dain Rauscher Wessels presented to the Petro board its opinion that the consideration to be provided to the Petro public common stockholders in the transaction was fair from a financial point of view. PaineWebber and Petro's legal counsel attended that meeting.

On October 19, 1998, the Petro board held a meeting to consider the transaction. Based on a variety of factors, including the Dain Rauscher Wessels opinion, the Petro board unanimously approved the merger agreement and exchange agreement and authorized and directed the officers of Petro to execute and deliver the merger agreement and exchange agreement.

#### Petro and Star Gas Partners Negotiate to Amend the Transaction

As a result of the volatility and uncertainty in the high yield debt markets in October and November 1998, Petro began to explore alternatives to the initially contemplated high yield offering of \$120 million of senior subordinated debt. In November and December 1998, Petro had several telephone conversations and meetings with Bank of America regarding a proposed private placement of investment grade senior secured debt as an alternative to the high yield offering. Representatives

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of the bank advised Petro that they believed that there was a market for an offering of approximately \$90 million of Petro senior secured debt if that debt were to receive an investment grade rating. In their opinion this rating could be obtained by changing the proportion of capital to be raised from \$140 million of equity and \$120 million of debt to \$170 million of equity and \$90 million of debt and by ranking the debt senior secured. In order to structure this type of offering, Petro needed to obtain the consent of its existing senior private debtholders to permit the new debt to be given that ranking.

In December 1998, Petro had several conversations with the holders of its existing senior debt as well as conversations with the Fitch rating service to determine whether a \$90 million senior secured debt offering could receive an investment grade rating. In December 1998, Petro received favorable indications from the holders of its existing senior debt that they would be willing to permit the new senior debt to be pari passu with the existing senior debt. In January 1999, Petro received preliminary advice from the Fitch rating service indicating that a \$90 million senior secured debt offering by Petro could receive an investment grade rating.

In January 1999, Mr. Sevin sought approval from the special committee to amend the merger agreement between Star Gas Partners and Petro to allow an increase in the amount of Star Gas Partners common units to be issued from \$140 million to \$170 million and to provide greater flexibility in that agreement's limitation on the annual cost of new capital.

After consultation with A.G. Edwards, the special committee advised Mr. Sevin that they were concerned that an increase in the size of the equity offering would reduce the common unit coverage ratio, as compared to the level that was contemplated under the originally agreed upon capital structure. This would make the revised structure less attractive, in their opinion, to the Star Gas Partners common unitholders. The special committee indicated they could approve the common unit offering increase, however, in return for a 10% reduction in the conversion ratio on the Star Gas Partners senior subordinated units, junior subordinated units and general partner units to be issued in exchange for Petro common stock. The special committee also agreed to allow some limited flexibility on the cost of capital requirement in the merger agreement to the

extent that Petro obtained savings on the redemption prices of its debt and preferred stock and used those savings to retire debt and preferred stock.

After reviewing this proposal with PaineWebber, on January 13, 1999, Mr. Sevin advised the special committee that he would recommend that the Petro board approve this proposal.

The Special Committee Recommends and the Star Gas Corporation Board Approves the Amended Transaction

On February , 1999 the special committee met with its financial advisors and legal counsel to consider the proposed changes to the transaction. At this meeting, A.G. Edwards delivered its oral and written opinion that the amended transaction was fair, from a financial point of view, to the Star Gas Partners public common unitholders. After discussion and based on the advice of its advisors and the fairness opinion of A.G. Edwards dated February , 1999, the special committee unanimously voted to recommend the amended transaction to the Star Gas Corporation board for its approval. This approval was subject, however, to its legal advisors negotiating the last remaining details of the amendment to the merger agreement, none of which were deemed material. On

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February , 1999, based on that recommendation, the Star Gas Corporation board approved the amended merger agreement and amended exchange agreement and authorized the officers of Star Gas Corporation to execute and deliver the amended merger agreement and the amended exchange agreement.

The Petro Board Approves the Amended Transaction

On , 1999, Dain Rauscher Wessels presented to the Petro board its opinion dated February , 1999 that the consideration to be provided to the Petro public common stockholders in the amended transaction was fair, from a financial point of view. PaineWebber and Petro's legal counsel attended that meeting.

Based on a variety of factors, including the Dain Rauscher Wessels opinion dated February , 1999, the Petro board unanimously approved the amended merger agreement and amended exchange agreement and authorized and directed the officers of Petro to execute and deliver those agreements.

Reasons for the Transaction that the Special Committee Considered;  
Recommendations of the Special Committee and Star Gas Corporation Board

At a meeting of the special committee held on February , 1999, the special committee received presentations concerning, and reviewed the terms of, the amended transaction with members of management and its legal counsel and financial advisors. At the meeting, the special committee unanimously determined that the amended transaction is fair to, and in the best interests of, the Star Gas Partners public common unitholders. The special committee expressly adopted the conclusions and analysis of A.G. Edwards regarding the fairness of the transaction to the Star Gas Partners public common unitholders. Accordingly, the special committee unanimously recommends that the Star Gas Partners unitholders vote FOR the unitholder meeting proposals at the unitholders meeting. Based on the recommendation of the special committee, the board of directors of Star Gas Corporation has determined that the transaction is fair to, and in the best interests of, the Star Gas Partners public common unitholders and unanimously recommends that the Star Gas Partners common unitholders vote FOR each of the proposals at the unitholders meeting. The Star Gas Corporation board, other than the members of the special committee, has also determined on behalf of Star Gas Partners that the transaction is fair to, and in the best interests of, Petro's public common stockholders. In reaching this conclusion, the Star Gas Corporation board has adopted the analyses employed by the Petro board to reach the same conclusion.

During the course of its deliberations, the special committee, with the assistance of management and its legal and financial advisors, considered a number of factors, including the following potential advantages of the transaction:

- . The special committee believes the acquisition of Petro will increase Star Gas Partners' ability to grow through further acquisitions in the home heating oil business. Petro is the largest retail distributor of home heating oil in the country. In addition, Petro has been the

principal consolidator of that highly fragmented industry, having purchased over 180 retail home heating oil companies since 1979. The primary source of growth in the propane industry is acquisitions. Competition for acquisitions in the propane industry has intensified, decreasing the opportunities available, and increasing the prices paid, for propane companies. The special committee believes Petro's strong position in the home heating oil industry will provide Star Gas Partners with an additional source of attractive acquisition and expansion opportunities.

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. The special committee believes the transaction will be accretive to Star Gas Partners' distributable cash flow per unit based on the following three factors:

- (1) Star Gas Corporation's management projections for 15- and 30-year weather;
- (2) Petro's management projections for 15- and 30-year weather, as well as the adjusted 15-year weather projections for Petro and the adjusted 30-year weather projections for Petro utilized by A.G. Edwards in its analyses; and
- (3) the expected pro forma capital structure of Star Gas Partners, including its pro forma debt and common, senior subordinated, junior subordinated and general partner units outstanding.

The expected increase in distributable cash flow per unit resulting from the transaction will enable Star Gas Partners to raise the minimum quarterly distribution from \$0.55 to \$0.575 or from \$2.20 to \$2.30 on an annual basis. If the expected increase in distributable cash flow is realized, it will provide greater protection of the minimum quarterly distribution and improve the possibility of future distribution increases.

. The transaction will increase Star Gas Partners' market capitalization and should provide greater common unit liquidity, investment community awareness and the ability to attract securities analyst research coverage.

. Petro common stockholders will receive Star Gas Partners senior subordinated units that are subordinated to the distributions on Star Gas Partners common units for a minimum of three years. The senior subordinated units will remain subordinated to the common units until Star Gas Partners has earned and paid the minimum quarterly distribution of \$2.30 on all units for three consecutive four-quarter periods. In addition, the subordination period has been extended at least 21 months from January 1, 2001 to October 1, 2002.

. During the subordination period, distributions on the Star Gas Partners senior subordinated units, junior subordinated units and general partner units will be generally limited to the amount of distributable cash generated after the transaction is completed.

. Overall, the special committee believes that the transaction represents an opportunity to acquire a company that is expected to significantly increase Star Gas Partners' size and scope of operations, growth prospects and ability to increase its distributions to unitholders.

During the course of its deliberations, the special committee also considered the following potential disadvantages of the transaction:

. Star Gas Partners is acquiring an entity which, based on 1997 revenues, is several times its size. Therefore, the nature of Star Gas Partners' business will change significantly.

. Petro has a history of operational and financial difficulties, including high leverage and recent substantial net losses.

. The success of the acquisition depends upon Star Gas Partners' ability to continue to

- (1) make heating oil acquisitions at attractive prices;
- (2) reduce Petro's customer attrition rate; and



(3) improve Petro's profit margins on a per gallon basis.

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There can be no assurance that any of the three will occur.

- . Star Gas Partners is making a large investment in a business which, like Star Gas Partners' propane operations, is negatively affected by warm weather during the winter months.
- . The income of Petro, unlike the income of Star Gas Partners, will be subject to corporate tax prior to distributions. Dividend income from Petro cannot be offset with past or future losses generated by Star Gas Partners' propane operations.
- . The ratio of taxable income to cash distributions to be made to the existing Star Gas Partners common unitholders will increase over time at a greater rate than if the transaction does not occur.
- . The home heating oil business is not a growth business as a result of competition from alternative energy sources.
- . The proportion of Star Gas Partners common units to total limited partner interests will increase from 60.5% to 79.9%. Therefore the likelihood that common units will receive the full minimum quarterly distribution will be reduced.
- . The number of Star Gas Partners common units will increase from approximately 3.9 million to 12.9 million representing a potential significant dilution.

The special committee also considered the following factors:

- . The special committee placed significant weight on A.G. Edwards' opinion that the transaction is fair, from a financial point of view, to the Star Gas Partners public common unitholders. The special committee considered valuation methods used by A.G. Edwards in rendering their opinion to be appropriate and has adopted the A.G. Edwards opinion in reaching their determination as to the fairness of the transaction to the Star Gas Partners public common unitholders. The special committee did not perform its own financial analysis (see page 66).
- . The projections prepared by Star Gas Partners and Petro (see page 91).
- . The terms of the exchange agreement, the merger agreement and the amendments to the partnership agreement (see pages 98, 101 and 112).
- . The conditions to the completion of the transaction (see page 103).
- . The background of the structure of the transaction (see page 50).
- . The conflicts of interest in structuring the transaction (see pages 22 and 27).
- . Recent trading prices of the common units and the common stock (see pages 158 and 159).

The discussion above of information and factors considered and given weight by the special committee is not intended to be exhaustive. Except for A.G. Edwards' opinion, on which it placed significant weight, in view of the wide variety of factors considered in its evaluation of the transaction, the special committee did not find it practicable to, and did not, quantify or otherwise attempt to assign relative weights to the specific factors considered in reaching its determination. In addition, individual members of the special committee may have given different weights to different factors.

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The special committee unanimously recommends that the Star Gas Partners public common unitholders vote FOR the unitholder meeting proposals.

Opinion of A.G. Edwards

On March 23, 1998, the special committee engaged A.G. Edwards to serve as its financial advisor and to render an opinion as to the fairness, from a financial point of view, of the transaction to the Star Gas Partners public common unitholders.

A.G. Edwards, as part of its investment banking business, is regularly engaged in, among other things, the valuation of businesses and their securities in mergers and acquisitions, initial public offerings, secondary distribution of listed and unlisted securities, private placements, and valuations for estate, corporate and other purposes. A.G. Edwards is familiar with Star Gas Partners through acting as exclusive financial advisor and placement agent in Star Gas Partners' private placement of 7.17% First Mortgage Notes due 2010 and through its securities research coverage of Star Gas Partners. A.G. Edwards is not aware of any relationship between A.G. Edwards and Star Gas Partners, Star Gas Corporation or Petro, which in its opinion, would affect its ability to render a fair and independent opinion in this matter.

On October 16, 1998, A.G. Edwards rendered its written opinion to the special committee that, as of the date of the opinion, the transaction was fair, from a financial point of view, to the Star Gas Partners public common unitholders.

On [February , 1999], A.G. Edwards rendered an opinion, that as of such date, the transaction was fair, from a financial point of view, to the Star Gas Partners public common unitholders. This opinion and the related analysis described below reflect the changes to the transaction and the updated projections. The opinion dated October 16, 1998 has been filed as an exhibit to the registration statement of which this proxy statement forms a part.

After delivering the October 16, 1998 opinion, Star Gas Partners invited A.G. Edwards to serve as one of seven co-managers of the equity offering.

The full text of the A.G. Edwards opinion [dated February 10, 1999] is attached as Annex D to this proxy statement. It describes A.G. Edwards' principal assumptions made, procedures followed, matters considered and limitations of the scope of the review undertaken by A.G. Edwards in rendering its opinion. The Star Gas Partners public common unitholders are urged to, and should, read the A.G. Edwards opinion carefully and in its entirety. The A.G. Edwards opinion was directed to the special committee and addresses only the fairness, from a financial point of view, of the transaction to the Star Gas Partners public common unitholders and does not constitute tax advice or a recommendation to any Star Gas Partners public common

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unitholder as to how to vote on the transaction. The summary of the A.G. Edwards opinion in this proxy statement is qualified in its entirety by reference to the full text of the A.G. Edwards opinion.

For purposes of the A.G. Edwards opinion [dated February 10, 1999] A.G. Edwards assumed that Star Gas Partners will be able to complete the private debt offering of approximately \$90.0 million of senior secured notes, the public equity offering of approximately \$170.0 million of common units, and the redemption of some debt and preferred stock of Petro. A.G. Edwards understood that the transaction will not be completed if Star Gas Partners is unable to complete the offerings and redemptions in accordance with the terms of the amended merger agreement. A.G. Edwards also assumed that the withdrawal of Star Gas Corporation as general partner of Star Gas Partners and the related admission of a successor general partner will have no financial impact on the Star Gas Partners public common unitholders.

In rendering its opinion [dated February 10, 1999], A.G. Edwards reviewed:

- . the most recently available drafts of Star Gas Partners' registration statement on Form S-4 and its exhibits including the amended merger agreement, the exchange agreement, the amended and restated partnership agreement and the conveyance and contribution agreements;
- . some publicly available historical audited financial statements and some unaudited interim financial statements of Star Gas Partners and Petro;
- . some financial analyses and forecasts of Star Gas Partners prepared by, and reviewed with, management of Star Gas Corporation and the views of

management of Star Gas Corporation regarding Star Gas Partners' past and current business operations, results thereof, financial condition and future prospects, including the impact of the transaction, as well as information relating to the retail propane distribution industry and the potential strategic, financial and operational benefits and challenges anticipated from the transaction;

- . some financial analyses and forecasts of Petro prepared by, and reviewed with, management of Petro and the views of management of Petro regarding Petro's past and current business operations, results thereof, financial condition and future prospects, including the impact of the transaction, as well as information relating to the home heating oil distribution industry and the potential strategic, financial and operational benefits and challenges anticipated from the transaction;
- . the pro forma impact of the transaction on Star Gas Partners and Petro;
- . the publicly reported historical price and trading activity for the common units and the Class A common stock, including a comparison of some financial and stock market information for Star Gas Partners with similar publicly available information for some other companies, the securities of which are publicly traded;
- . the current market environment generally and the retail propane distribution environment and the home heating oil distribution environment in particular;
- . information relating to the financial terms of some transactions, including selected merger and acquisition transactions; and
- . any other information, financial studies, analyses and investigations, and financial, economic and market criteria that A.G. Edwards considered relevant.

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A.G. Edwards did not perform an analysis related to the net book value or the liquidation value of Petro as it considered these analyses inappropriate under the circumstances of the transaction. A.G. Edwards believes that net book value represents only historical financial performance and does not accurately reflect market value or potential future financial performance. Additionally, A.G. Edwards believes that a liquidation value analysis is inappropriate for valuing Petro as an ongoing concern. In rendering the A.G. Edwards opinion [dated February 10, 1999], A.G. Edwards assumed that the transaction will be completed on the terms contained in the amended merger agreement, without any waiver of any material terms or conditions by Star Gas Partners or Petro.

The financial or other information upon which A.G. Edwards based its opinion, [dated February 10, 1999] was either publicly available, furnished to or otherwise discussed with A.G. Edwards for the purpose of its opinion. A.G. Edwards relied upon and assumed the accuracy and completeness of this information without any independent verification. A.G. Edwards assumed and was advised by the management of Star Gas Corporation and Petro that the financial projections and other information provided to A.G. Edwards were reasonably prepared on a basis that reflects the best currently available estimates and judgments of the management of Star Gas Corporation and Petro. A.G. Edwards requested that the management of Star Gas Corporation adjust the 1999 Star Gas Partners projections for the actual results through January 21, 1999. These adjusted for actual projections were lower than the Star Gas Partners 1999 EBITDA projections by 12.4% for the 30-year weather projections and 10.0% for the 15-year weather projections.

A.G. Edwards reviewed numerous sets of Petro's projections and analyzed what it believed were some of the major assumptions embedded within Petro's projections, which are detailed in "--Certain Projections of Petro and Star Gas Partners." A.G. Edwards requested that Petro:

- (1) make changes to two of its assumptions;
- (2) adjust its 1999 projections for the actual results through January 21, 1999; and
- (3) furnish A.G. Edwards with the resulting adjusted projections based on

both 15-year weather and 30-year weather, collectively referred to as the "adjusted projections for Petro."

The two assumptions that A.G. Edwards requested that Petro change were as follows:

- . A.G. Edwards assumed retail margin growth of \$0.01 per gallon in 1999 and \$0.005 per gallon thereafter; and
- . A.G. Edwards assumed that Petro would complete \$15.0 million in 1999 and \$30.0 million, annually, in 2000 to 2002 of home heating oil company acquisitions at a purchase price of 4.75x the first year earnings before interest expense, income taxes, depreciation and amortization and any infrequent revenues and expenses ("EBITDA").

The adjusted 30-year weather projections for Petro resulted in heating oil EBITDA projections that were lower than the heating oil EBITDA projections from Petro's 30-year weather projections by the following percentages for 1999, 2000, 2001 and 2002: [5.9]%, [4.3]%, [7.7]% and [10.6]%. The adjusted 15-year weather projections for Petro resulted in heating oil EBITDA projections that were lower than the heating oil EBITDA projections from Petro's 15-year weather projections by the following percentages for 1999, 2000, 2001 and 2002: [3.4]%, [3.3]%, [5.0]% and [6.6]%.

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The special committee did not engage A.G. Edwards to, and therefore A.G. Edwards did not, verify the accuracy or completeness of any of the information above. A.G. Edwards has relied upon the assurances of the management of Star Gas Corporation and Petro that the managements are not aware of any facts that would make the information inaccurate or misleading. A.G. Edwards did not conduct a physical inspection of the properties or facilities of Star Gas Partners or Petro nor did it make or obtain any independent evaluation or appraisals of those properties or facilities or assets and liabilities. A.G. Edwards assumed that the transaction will be accounted for as a purchase transaction under generally accepted accounting principles. A.G. Edwards also assumed that the final form of Star Gas Partners' registration statement on Form S-4, the amended merger agreement, the exchange agreement, the amended and restated partnership agreement and the conveyance and contribution agreements would be substantially similar to the last drafts reviewed by A.G. Edwards. The A.G. Edwards opinion is necessarily based on economic and other conditions as in effect on, and the information made available to A.G. Edwards as of [February 10, 1999], except market data, which was as of February 3, 1999.

The consideration being paid to the Petro common stockholders in the transaction will consist of Star Gas Partners senior subordinated units, junior subordinated units and general partner units. As of the date of the A.G. Edwards opinion, a market price did not exist for these units. After the transaction, a market price will exist only for the Star Gas Partners senior subordinated units. In A.G. Edwards' judgment, an analysis of the value per unit of each of the Star Gas Partners senior subordinated units, junior subordinated units and general partner units was necessary to evaluate the fairness of the transaction. In analyzing the value of the Star Gas Partners senior subordinated units, A.G. Edwards reviewed estimated ranges of discount rates, trading yields and relative valuations compared to the price of the publicly-traded Star Gas Partners common units. In determining these estimated ranges, A.G. Edwards considered, among other factors:

- . during the subordination period, Star Gas Partners common unitholders will have priority in payment of the full minimum quarterly distribution plus arrearages before any distributions are made to the Star Gas Partners senior subordinated unitholders;
- . the earliest date on which the subordination period could expire is October 1, 2002;
- . the subordination period would only expire if the adjusted operating surplus generated during each of the three immediately preceding non-overlapping four-quarter periods equaled or exceeded the sum of the increased minimum quarterly distribution of \$2.30 on a yearly basis on all outstanding units during that period;
- . during the subordination period, distributions on the Star Gas Partners senior subordinated units will be limited to the amount of distributable cash generated;
- . the Star Gas Partners senior subordinated units will receive a distribution of additional Star Gas Partners senior subordinated units,

- but only if Petro achieves specified financial goals during the five-year period following the closing of the transaction; and
- . the Star Gas Partners senior subordinated units will receive a pro rata distribution of the rights to receive incentive distributions previously held by the general partner.

A.G. Edwards' analysis resulted in an implied valuation range for a Star Gas Partners senior subordinated unit of [\$15.26] to [\$17.17] per unit, of which A.G. Edwards used the midpoint value of [\$16.22].

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In analyzing the value of the Star Gas Partners junior subordinated units and general partner units, A.G. Edwards considered, among other factors, some of the differences between the Star Gas Partners senior subordinated units, on the one hand, and the junior subordinated units and general partner units, on the other hand, including:

- . the lack of marketability of the Star Gas Partners junior subordinated units and general partner units;
- . the authority given the general partner under the amended and restated partnership agreement, and reflected in the general partner units, to control the affairs of Star Gas Partners; and
- . during the subordination period, both the common units and senior subordinated units will have priority in payment of the full minimum quarterly distribution before any distributions are made on the Star Gas Partners junior subordinated units and general partner units.

A.G. Edwards' analysis resulted in an implied valuation range for the junior subordinated units and general partner units of [\$12.40] to [\$14.31] per unit, of which A.G. Edwards used the midpoint value of [\$13.35]. Based on an implied value of [\$16.22] for each senior subordinated unit and [\$13.35] for each junior subordinated unit and general partner unit, A.G. Edwards calculated that the implied consideration paid for each Petro share averaged [\$1.91].

A.G. Edwards did not express an opinion as to what the value of the senior subordinated units, junior subordinated units or general partner units will be when issued to the Petro common stockholders in the transaction or the price at which the common units or senior subordinated units will trade after the transaction.

The preparation of a fairness opinion is a complex process and is not readily susceptible to partial analysis or summary description. In rendering the A.G. Edwards opinion [dated February 10, 1999], A.G. Edwards applied its judgment to a variety of complex analyses and assumptions, considered the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or factor considered by it. Furthermore, selecting any portion of its analyses, without considering all analyses, would create an incomplete view of the process underlying the A.G. Edwards opinion. In addition, A.G. Edwards may have given various analyses and factors more or less weight than other analyses and factors, and may have deemed various assumptions more or less probable than other assumptions, so that the ranges of valuations resulting from any particular analysis described below should not be taken to be A.G. Edwards' view of the actual value of Star Gas Partners or Petro. In performing its analyses, A.G. Edwards made numerous assumptions regarding industry performance, general business and economic conditions and other matters, many of which are beyond the control of Star Gas Partners or Petro.

The assumptions made and judgments applied by A.G. Edwards in rendering the A.G. Edwards opinion [dated February 10, 1999] are not readily susceptible to description beyond that in the written text of the A.G. Edwards opinion itself. Any estimates are not necessarily indicative of future results or actual values, which may be significantly more or less favorable than those suggested by the estimates. A.G. Edwards does not assume responsibility if future results are different from those projected. The analyses performed were prepared solely as part of A.G. Edwards' analysis of the fairness, from a financial point of view, to Star Gas Partners public common unitholders of the

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transaction and were conducted for the delivery of the A.G. Edwards opinion to

the special committee. The A.G. Edwards opinion was one of the many factors taken into consideration by the special committee in making its determination to recommend the transaction. The decision to enter into the transaction was solely that of the special committee and the Star Gas Corporation board.

The following is a summary of the material analyses performed by A.G. Edwards in arriving at the A.G. Edwards opinion [dated February 10, 1999]:

Pro Forma Acquisition Analysis

A.G. Edwards analyzed the impact of the transaction on Star Gas Partners,

- . distributable cash flow per unit, which is distributable cash flow divided by the total number of common, senior subordinated, junior subordinated and general partner units, and the related accretion; distributable cash flow is defined as EBITDA less interest expense, maintenance, capital expenditures and taxes,
- . common unit coverage, which is distributable cash flow per common unit divided by the yearly minimum quarterly distribution of \$2.20, or \$2.30 on a pro forma basis and
- . total unit coverage, which is distributable cash flow per total unit divided by the yearly minimum quarterly distribution of \$2.20, or \$2.30 on a pro forma basis.

Based on the adjusted 15-year weather projections for Petro and the Star Gas Corporation's management projections for 15-year weather and adjusted 30-year weather projections for Petro and Star Gas Corporation's management projections for 30-year weather, as well as other assumptions including assumptions regarding the refinancing transactions, A.G. Edwards calculated pro forma for the transaction, projected distributable cash flow per unit, common unit coverage and total unit coverage and compared these calculations to the same calculations for Star Gas Partners on a stand-alone basis under three scenarios:

- . actual 1998, which was based on historical results for Star Gas Partners and Petro for the four quarters ended September 30, 1998,
- . adjusted for actual 1999 and
- . projected 2000, which assumed normal weather.

The results are as follows:

	15-Year Weather		30-Year Weather	
	Stand-alone	Pro Forma	Stand-alone	Pro Forma
<b>Accretion</b>				
1998 Actual.....		[\$0.13]		[\$0.13]
1999 Adjusted for Actual.....		[0.56]		[0.56]
2000 Projected.....		[0.37]		[0.37]
<b>Common unit coverage</b>				
1998 Actual.....	[0.98x]	[0.78x]	[0.98x]	[0.78x]
1999 Adjusted for Actual.....	[1.04]	[1.06]	[1.13]	[1.12]
2000 Projected.....	[1.27]	[1.14]	[1.49]	[1.29]
<b>Total unit coverage</b>				
1998 Actual.....	[0.59x]	[0.62x]	[0.59x]	[0.62x]
1999 Adjusted for Actual.....	[0.64]	[0.85]	[0.68]	[0.90]
2000 Projected.....	[0.80]	[0.93]	[0.92]	[1.04]

A.G. Edwards believes that the accretion and increase in total unit coverage support the A.G. Edwards opinion, and that the decrease in common unit coverage in 1998 actual, 30-year weather 1999 adjusted for actual and 2000 projected does not support the A.G. Edwards opinion.

## Analysis of Acquisition Premiums to Market Value

A.G. Edwards analyzed the premium to be received by Petro common stockholders using the implied consideration of [\$1.91] for each Petro share and the market value of the Petro Class A common stock one day, one week, four weeks, three months and one year prior to August 14, 1998, the day the agreement in principle relating to the transaction was announced. A.G. Edwards reviewed three groups of selected merger and acquisition transactions of majority or remaining interests involving domestic public companies, excluding banks, thrifts and trusts, and compared these transactions with the transaction. The first group included [614] mergers and corporate transactions announced and completed since January 1, 1996 through February 3, 1999 in which the selling company's share price was equal to or greater than \$10 per share one week prior to the announcement. The second group included [137] mergers and corporate transactions announced and completed since January 1, 1996 through February 3, 1999 in which the selling company's share price was less than \$10 per share but greater than \$5 per share one week prior to the announcement. The third group included [113] mergers and corporate transactions completed since January 1, 1996 through February 3, 1999 in which the selling company's share price was equal to or less than \$5 per share one week prior to announcement. A.G. Edwards compared the mean values for the \$10 and greater transactions, the greater than \$5 and less than \$10 transactions, and the \$5 and less transactions, to the transaction premiums. The results are as follows:

Premium to stock price prior to announcement of the transaction on August 14th:	Petro at [\$1.91] per Unit Implied Offer Price	Mean of Transactions Equal to or Less Than \$5	Mean of Transactions Greater Than \$5 and Less Than \$10	Mean of Transactions Equal to or Greater Than \$10
One day prior:	[1.9%]	[57.8%]	[34.3%]	[28.4%]
One week prior:	[9.1%]	[68.5%]	[43.2%]	[32.9%]
Four weeks prior:	[(7.4%)]	[71.1%]	[50.1%]	[39.4%]
Three months prior:	[19.8%]	[71.8%]	[63.6%]	[54.7%]
One year prior:	[(36.3%)]	[51.9%]	[51.3%]	[72.1%]

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A.G. Edwards believes that the analysis of acquisition premiums to market value supports the A.G. Edwards opinion because the premium to the implied consideration to be received by the Petro common stockholders is less than the mean premium received in each of the three groups of selected merger and acquisition transactions reviewed by A.G. Edwards.

A.G. Edwards observed that Petro's Class A common stock price has declined since the announcement of the agreement in principle of the transaction and that the implied premium to be received by Petro common stockholders, based on Petro's Class A common stock price as of February 3, 1999, was [91.0%].

### Contribution Analysis

A.G. Edwards analyzed the relative pro forma contribution of each of Star Gas Partners and Petro to the ownership of capital in Star Gas Partners pro forma for the transaction based on Star Gas Partners' and Petro's historical results of operations and Star Gas Corporation's management projections and the adjusted projections for Petro. For comparative purposes, A.G. Edwards converted Petro's historical December 31 fiscal year-end to a September 30 year-end using Petro's quarterly statements to conform to Star Gas Partners' September 30 year-end. The results are as follows:

### Relative Contribution Analysis

Gross Profit		EBITDA	
15-Year Weather	30-Year Weather	15-Year Weather	30-Year Weather
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	Star Gas Partners		Star Gas Partners		Star Gas Partners		Star Gas Partners		
	Petro	Petro	Petro	Petro	Petro	Petro	Petro	Petro	
1996.....	24.3%	75.7%	24.3%	75.7%	1996.....	31.3%	68.7%	31.3%	68.7%
1997.....	29.4%	70.6%	29.4%	70.6%	1997.....	39.8%	60.2%	39.8%	60.2%
1998.....	28.9%	71.1%	28.9%	71.1%	1998.....	35.1%	64.9%	35.1%	64.9%
1999 Adjusted for Actual... 2000	[29.1%]	[70.9%]	[28.9%]	[71.1%]	1999 Adjusted for Actual... 2000	[32.0%]	[68.0%]	[32.2%]	[67.8%]
Projected.....	[29.7%]	[70.3%]	[29.5%]	[70.5%]	2000.....	[34.1%]	[65.9%]	[34.4%]	[65.6%]

A.G. Edwards compared these figures to the percentage of the implied pro forma firm value attributable to Star Gas Partners of [34.8%]. This figure was calculated by subtracting the implied aggregate purchase price of Petro's heating oil assets, as described in the comparable transactions analysis, from the pro forma market capitalization of Star Gas Partners divided by the pro forma market capitalization of Star Gas Partners. The pro forma market capitalization of Star Gas Partners equals:

- . the pro forma common units multiplied by the market price of the common units plus
- . the pro forma senior subordinated, junior subordinated and general partner units multiplied by their implied values plus
- . the pro forma book value of debt less pro forma cash.

A.G. Edwards believes that the contribution analysis supports the A.G. Edwards opinion because the percentage of the implied pro forma firm value attributable to Star Gas Partners is greater than Star Gas Partners' contribution to the gross profit and EBITDA of Star Gas Partners pro forma for the transaction for each of the years analyzed with the exception of Star Gas Partners' 1997 and 1998 EBITDA contribution.

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#### Discounted Cash Flow Analyses

A.G. Edwards performed a discounted cash flow analysis of Petro. In performing the Petro cash flow analysis A.G. Edwards used the adjusted projections for Petro, excluding the financial impact of projected acquisitions. In performing the Petro cash flow analysis, A.G. Edwards discounted back to using a discount rate range of [13.4%] to [13.9%] based upon Petro's weighted average cost of capital, the sum of:

- . the projected tax-adjusted operating cash flows for 1999 to 2002; and
- . the terminal value for 2002.

The Petro terminal value was determined based on projected 2002 operating cash flow and a terminal operating cash flow multiple range of [8.0x] to [10.0x]. Operating cash flow means EBITDA less taxes, maintenance capital expenditures and working capital increases.

The Petro cash flow analysis indicated a present value of the equity of Petro in the range of [(\$43.3)] million to [(\$2.9)] million for 15-year weather and [(\$28.8)] million to [\$14.2] million for 30-year weather. A.G. Edwards believes that the Petro cash flow analysis is not meaningful to the A.G. Edwards opinion because the indicated percent values resulting from this analysis represent the implied equity value of Petro's heating oil business to Petro's common stockholders if the transaction is not consummated, and does not relate to the value of Petro's heating oil business to the Star Gas Partners common unitholders if the transaction is consummated.

A.G. Edwards also performed discounted cash flow analyses of Star Gas Partners based on Star Gas Corporation's management projections and Star Gas Partners pro forma for the transaction based on Star Gas Corporation's management projections and the adjusted projections for Petro. In performing the Star Gas Partners cash flow analyses, A.G. Edwards discounted back to September 30, 1998 using a discount rate range of [9.5%] to [10.3%] for Star Gas Partners and [9.5%] to [10.3%] for Star Gas Partners pro forma for the transaction based upon the cost of equity for each, the sum of



- . the projected distributable cash flows for 1999 to 2002; and
- . the terminal values for 2002.

Star Gas Partners terminal values were determined based on 2002 projected distributable cash flows and a terminal distributable cash flow multiple range of [8.5x] to [10.5x] for 15-year weather and [8.0x] to [10.0x] for 30-year weather. Based on the Star Gas Partners' cash flow analyses and the ratio of the common units outstanding as of the date of the A.G. Edwards opinion to total units, including the general partner interest, outstanding as of that date, A.G. Edwards calculated the present value attributable to the original Star Gas Partners common units and compared it to the present value attributable to the original Star Gas Partners common units pro forma for the transaction. The range of values were [\$75.5] million to [\$89.7] million for 15-year weather and [\$77.6] million to [\$92.8] million for 30-year weather for Star Gas Partners and [\$90.7] million to [\$107.4] million for 15-year weather and [\$92.7] million to [\$110.5] million for 30-year weather for Star Gas Partners pro forma for the transaction. A.G. Edwards believes that the Star Gas Partners discounted cash flow analysis supports the A.G. Edwards opinion because the range of present values attributable to the original Star Gas Partners common units is higher on a pro forma basis.

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#### Comparable Transactions Analysis

A.G. Edwards noted that, because Petro is the only publicly-traded home heating oil distribution company, public disclosure regarding transactions in the home heating oil distribution industry was extremely limited. A.G. Edwards analyzed the financial terms related to divestitures by Petro of three of its heating oil branches and compared them to the implied multiples of the implied aggregate purchase price of Petro's heating oil assets. The analyzed divestitures were

- . Punderson, a division of Petro located in Springfield, Massachusetts,
- . A division of Petro located in southern New Hampshire and
- . TLC, a division of Petro's subsidiary Ocennet located in Hartford, Connecticut.

Petro sold these three branches for a range of 8.0x to 9.8x purchase price to EBITDA multiples.

In analyzing the implied EBITDA multiple paid for Petro's heating oil assets, A.G. Edwards considered the following:

- . the implied consideration paid for the Petro common stock;
- . the implied valuation of the subordinated units and general partner interest of Star Gas Partners currently owned by Petro;
- . the redemption value of certain of Petro's indebtedness and preferred stock;
- . the value of some of Petro's indebtedness that will remain outstanding subsequent to the transaction;
- . consent fees paid to certain of Petro's debt holders;
- . an estimate of all of the transaction costs associated with the transaction that will not be funded by Petro; and
- . Petro's actual 1998 EBITDA, adjusted for actual 1999 EBITDA and projected 2000 EBITDA based on the Adjusted Projections for Petro.

Based on this information, actual 1998 EBITDA, adjusted for actual 1999 EBITDA and projected 2000 EBITDA implied multiples paid for Petro's heating oil assets were [10.3x], [8.2x] and [7.8x] for 15-year weather, respectively, and [10.3x], [8.1x] and [7.4x] for 30-year weather, respectively. A.G. Edwards believes that the adjusted for actual 1999 and projected 2000 implied EBITDA multiples support the A.G. Edwards opinion because these multiples were within, or lower than, the range of EBITDA multiples that Petro received in the sale of

three of its heating oil branches. A.G. Edwards believes that the actual 1998 implied EBITDA multiple does not support the A.G. Edwards opinion as this multiple was higher than the range of EBITDA multiples that Petro received in the sale of three of its heating oil branches.

Analysis of Selected Publicly Traded Partnerships

A.G. Edwards used publicly-available information to compare selected financial and market trading information for Star Gas Partners to Star Gas Partners pro forma for the transaction and to a group of selected retail propane distributors, all of which are also publicly-traded limited partnerships. A.G. Edwards selected the retail propane distributors in this group based on the similarity of their businesses to that of Star Gas Partners.

This group was comprised of:

- . AmeriGas Partners, L.P.
- . Cornerstone Propane Partners, L.P.
- . Ferrellgas Partners, L.P.
- . Heritage Propane Partners, L.P.
- . Suburban Propane Partners, L.P.

No partnership used in the analysis is identical to Star Gas Partners.

A.G. Edwards' analysis involves complex considerations and judgments concerning differences in the potential financial and operating characteristics of the selected comparable group of retail propane distributors and other factors regarding the trading values of this group. The financial information reviewed included, among other things:

- (1) market capitalization, which for purposes of this calculation was defined as equity market capitalization, plus the book value of debt plus the book value of minority interest less cash, to latest twelve months EBITDA and 1999 estimated EBITDA based on currently available research estimates;
- (2) equity market capitalization, which for the purposes of this calculation was defined as common units plus subordinated units and implied general partner units multiplied by the market price of the common units to latest twelve months distributable cash flow and 1999 estimated distributable cash flow based on currently available research estimates; and
- (3) distribution yield.

A.G. Edwards based the analysis for Star Gas Partners and Star Gas Partners pro forma for the transaction on Star Gas Corporation's management projections and the adjusted projections for Petro, the closing price of Star Gas Partners' common units on [February 3, 1999] of [\$18.06] and a \$2.20 yearly minimum quarterly distribution for Star Gas Partners stand-alone and a \$2.30 annualized minimum quarterly distribution for Star Gas Partners pro forma. The results are as follows:

	Star Gas Partners Stand-alone		Star Gas Partners Pro Forma		Public Partnership Medians	Public Partnership Ranges
	15-Year Weather	30-Year Weather	15-Year Weather	30-Year Weather		
Distribution Yield	[12.2%]	[12.2%]	[12.7%]	[12.7%]	[10.4%]	[8.6%] to [12.3%]
Market Capitalization/LTM EBITDA	[11.9x]	[11.9x]	[10.3x]	[10.3x]	[11.5x]	[9.1x] to [13.2x]
Market Capitalization/1999E EBITDA	[11.0x]	[10.7x]	[8.7x]	[8.4x]	[9.8x]	[8.6x] to [11.3x]
Equity Market Cap/LTM DCF	[13.8x]	[13.8x]	[12.6x]	[12.6x]	[13.2x]	[9.6x] to [15.5x]

A.G. Edwards believes that the analysis of selected publicly traded partnerships supports the A.G. Edwards opinion as: the distribution yield on a pro forma basis increased compared to Star Gas Partners stand-alone and was higher than the median of the comparable public partnerships, and the Market Capitalization/EBITDA and Equity Market Capitalization/DCF multiples decreased on a pro forma basis compared to Star Gas Partners stand-alone and were lower than the median of the comparable public partnerships.

#### Terms of A.G. Edwards' Engagement

The terms of the engagement of A.G. Edwards by the special committee are described in a letter agreement between A.G. Edwards and the special committee. Under the terms of the engagement letter, as compensation for rendering its financial advisory services and the A.G. Edwards opinions to the special committee, Star Gas Partners agreed to pay A.G. Edwards a fee of \$575,000, of which \$325,000 has been paid and \$250,000 will be due upon the closing of the transaction. Star Gas Partners agreed to reimburse A.G. Edwards for all travel and out-of-pocket expenses incurred in its engagement. Star Gas Partners also agreed to indemnify A.G. Edwards against some liabilities in the engagement of A.G. Edwards.

#### Reasons for the Transaction that the Petro Board Considered; Recommendation of the Petro Board

At a special meeting of the Petro board held on October 6, 1998, the Petro board received presentations concerning, and reviewed the terms of, the transaction with members of Petro's management and its legal counsel and financial advisors. At a special meeting held on October 19, 1998, the Petro board unanimously determined that the transaction is fair to, and in the best interests of, the Petro public common stockholders. The Petro board expressly adopted the conclusions and analysis of Dain Rauscher Wessels concerning the fairness of the consideration to be received by the Petro public common stockholders. Accordingly, the Petro board has unanimously approved the merger agreement and exchange agreement and unanimously recommends that the Petro common stockholders vote FOR the approval of the acquisition proposal at the special meeting. See "--Background of the Transaction."

During the course of its deliberations, the Petro board with the assistance of management and its legal and financial advisors, considered the following potential advantages of the transaction:

- . Petro is the largest home heating oil distributor in the U.S. and the principal consolidator of that highly fragmented industry. However, Petro does not have the financial flexibility to fully capitalize upon the acquisition, operating and corporate branding opportunities resulting from this position. This transaction will recapitalize Petro providing it with access to lower cost capital to better realize these growth opportunities.
- . As part of a publicly-traded limited partnership, Petro's home heating oil operations should receive an improved market valuation. Due to high financing costs and amortization of customer lists, Petro does not currently generate net income for financial reporting purposes. Since publicly-traded limited partnerships are cash flow oriented and are valued primarily on a cash distribution basis, the publicly-traded limited partnership structure corresponds more closely with Petro's focus on cash flow. The Petro board also believes Star Gas Partners will have greater investment community awareness as compared to Petro. As the only public home heating oil company, Petro has had limited securities analyst research coverage.

- . Based on information provided by its financial advisors, the Petro board expects the Petro common stockholders to receive Star Gas Partners' units that are expected to trade at an attractive price compared to the recent

trading price of the Petro common stock. The actual trading price of the Star Gas Partners senior subordinated units will depend on a variety of factors, including overall market conditions for publicly-traded limited partnerships, the trading level of the Star Gas Partners common units, the weather in Star Gas Partners' areas of operations and the actual and expected levels of available cash generated by Star Gas Partners' activities.

- . The Petro board believes that the transaction has been structured so the Petro common stockholders will continue to participate in the expected benefits from Petro's operating and corporate branding opportunities. If Petro achieves specified financial goals within the five-year period after closing, the holders of Star Gas Partners senior subordinated units, junior subordinated units and general partner units will receive up to an additional 909,000 senior subordinated units. This enables Petro common stockholders to continue to participate in Petro's future performance. While there is no assurance these goals will be achieved, the Petro board believes that they are realistic and, if achieved, could provide significant additional value to Petro common stockholders.
- . Although Petro has historically paid cash dividends to its common stockholders, these dividends have been suspended. Star Gas Partners generally distributes to its partners the cash it generates from its operations. While there can be no assurance, this should give Petro common stockholders an increased probability of a resumption of annual distributions.
- . The Star Gas Partners senior subordinated units will be allocated certain incentive distribution rights previously held by the general partner. To the extent that Star Gas Partners generates cash above certain target distribution levels, the holders of Star Gas Partners senior subordinated units may receive increased cash distributions.
- . The Petro public common stockholders will receive Star Gas Partners senior subordinated units that must receive their full minimum quarterly distribution prior to any payments being made on the Star Gas Partners junior subordinated units and the general partner units.

During the course of its deliberations, the Petro board also considered the following potential disadvantages of the proposed transaction.

- . Unitholders in Star Gas Partners have substantially different, and probably fewer, legal rights than Petro common stockholders.
- . There is no current trading market for the Star Gas Partners senior subordinated units and even though they will be listed on the New York Stock Exchange, there are no assurances that any active trading market will exist after the closing of the transaction. It is expected that the Star Gas Partners senior subordinated units will trade at a lower price than the common units.
- . Distributions on the Star Gas Partners senior subordinated units, junior subordinated units and general partner units are not guaranteed and are subordinated to distributions on the common units. Further, distributions on the senior subordinated units, junior subordinated units and

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general partner units are in general limited to the amount of distributable cash generated after the transaction. Therefore, there is significant uncertainty as to the amount and timing of those distributions.

- . Star Gas LLC, the new general partner in Star Gas Partners, may have a greater number of conflicts of interest than the directors of Petro.
- . Star Gas Partners' propane operations, like Petro's home heating oil business, are negatively affected by warm weather during the winter months.
- . Star Gas Partners may face difficulties in the future in making attractive acquisitions in the propane industry because of the highly competitive nature of the industry.

. Petro common stockholders that are tax-exempt entities, regulated investment companies or foreign taxpayers may determine that holding an interest in Star Gas Partners may be unattractive from a tax perspective. If some of these investors sell their Star Gas Partners' senior subordinated units following the transaction, the market price of the senior subordinated units could fall substantially.

The Petro board also considered the following factors.

- . The Petro board placed significant weight on the Dain Rauscher Wessels opinion that the consideration to be received by the Petro public common stockholders is fair, from a financial point of view, to the public common stockholders. The Petro board considered the valuation methods used by Dain Rauscher Wessels in rendering the Dain Rauscher Wessels opinion to be appropriate and has adopted the Dain Rauscher Wessels opinion in reaching their determination as to the fairness of the transaction to the Petro public common stockholders. The Petro board did not perform its own financial analysis (see page 80).
- . The projections prepared by Star Gas Partners and Petro (see page 91).
- . The terms of the exchange agreement, merger agreement and amendments to the partnership agreement (see pages 98, 101 and 112).
- . The conditions to the completion of the transaction (see page 103).
- . The background of the structure of the transaction (see page 50).
- . The conflicts of interest in structuring the transaction (see pages 22 and 27).
- . Recent trading prices for the Star Gas Partners common units and the Petro common stock (see pages 158 and 159).

The discussion above of information and factors considered and given weight by the Petro board is not intended to be exhaustive. Except for the Dain Rauscher Wessels opinion on which it placed significant weight, in view of the wide variety of factors considered in its evaluation of the transaction, the Petro board did not find it practicable to, and did not, quantify or otherwise attempt to assign relative weights to the specific factors considered in reaching its determination. In addition, individual members of the Petro board may have given different weights to different factors.

The Petro board unanimously recommends that the Petro common stockholders vote FOR the acquisition proposal at the special meeting.

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#### Opinion of Dain Rauscher Wessels

On May 14, 1998, the Petro board retained Dain Rauscher Wessels to render an opinion to the Petro board concerning the fairness, from a financial point of view, of the consideration the Petro public common stockholders will receive in the merger. Dain Rauscher Wessels rendered an opinion to the Petro board on October 6, 1998. This opinion stated that, as of the date of the opinion and based upon and subject to the factors and assumptions described in that opinion, the consideration the Petro public common stockholders will receive in the merger was fair, from a financial point of view, to the Petro public common stockholders.

On February , 1999, Dain Rauscher Wessels rendered an opinion that as of such date, the transaction was fair, from a financial point of view, to the Petro public common stockholders. This opinion and the related analyses described below reflect the changes to the transaction and the updated projections. The opinion dated October 6, 1998 has been filed as an exhibit to the registration statement of which this proxy statement forms a part.

The full text of the Dain Rauscher Wessels opinion, which describes the principal assumptions made, matters considered and qualifications and limitations on the review undertaken by Dain Rauscher Wessels in rendering its opinion dated February , 1999, is attached as Annex E to the proxy statement and is incorporated by reference. The summary of the Dain Rauscher Wessels opinion dated February , 1999 in this proxy statement is qualified in its entirety by reference to the full text of the opinion dated February , 1999.

Petro common stockholders are urged to read the opinion carefully and in its entirety. The Dain Rauscher Wessels opinion was provided to the Petro board for its information and is directed only to the fairness, from a financial point of view, of the consideration the Petro public common stockholders will receive in the merger. The Dain Rauscher Wessels opinion dated February , 1999 does not address the merits of the underlying decision by Petro to engage in the merger and does not constitute a recommendation to any Petro common stockholder as to how that holder should vote on the approval and adoption of the merger agreement or any matter related to it.

The summary below does not completely describe the analyses underlying the Dain Rauscher Wessels opinion dated February , 1999 or Dain Rauscher Wessels' presentation to the Petro board. The preparation of a fairness opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, this opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion dated February , 1999, Dain Rauscher Wessels did not attribute any particular weight to any individual analysis or factor considered by it, but rather made assumptions and qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Dain Rauscher Wessels believes that its analyses must be considered as a whole and that selecting portions of its analyses, without considering all of its analyses, would create an incomplete view of the process underlying the Dain Rauscher Wessels opinion.

In performing its analyses, numerous assumptions were made regarding industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Dain Rauscher Wessels, Petro or Star Gas Partners. Any estimates contained in

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the analyses Dain Rauscher Wessels performed are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than the analyses suggest. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which those businesses or securities might actually be sold. Accordingly, the analyses and estimates are inherently subject to substantial uncertainty. The Dain Rauscher Wessels opinion dated February , 1999 and Dain Rauscher Wessels' presentation to the Petro board were among several factors taken into consideration by the Petro board in making its determination to approve the merger agreement. Consequently, Dain Rauscher Wessels' analyses described below should not be viewed as determinative of the decision of the Petro board or Petro's senior management to engage in the merger.

In arriving at its opinion dated February , 1999, Dain Rauscher Wessels met with the senior managements of Petro and Star Gas Partners to discuss the businesses, operations and prospects of Petro and Star Gas Partners. Dain Rauscher Wessels also considered long-term benefits of the merger, both operational and financial, that the senior managements of Petro and Star Gas Partners described to Dain Rauscher Wessels. In addition, Dain Rauscher Wessels reviewed:

- . the most recently available draft of the merger agreement;
- . the amended and restated partnership agreement;
- . the most recently available draft of this proxy statement;
- . publicly available financial information concerning Petro and Star Gas Partners;
- . internal analyses, forecasts and other internal information concerning the businesses and operations of Petro and Star Gas Partners prepared by the senior managements of Petro and Star Gas Partners;
- . current and historical market prices and trading volumes for Petro common stock and Star Gas Partners common units;
- . Petro's and Star Gas Partners' cash flow, net income and book value per share or unit;
- . Petro's and Star Gas Partners' capitalization and financial condition;

- . the pro forma financial effects which could result from the merger;
- . the potential relative ownership of various classes of units of Star Gas Partners after the merger by the current holders of common stock of Petro and the current unitholders of Star Gas Partners;
- . to the extent publicly available, the terms of selected recent merger and acquisition transactions involving comparable public companies;
- . merger premiums paid in selected recent stock-for-stock acquisitions of public companies generally, and energy industry companies in particular;
- . financial, stock market and other publicly available information relating to the businesses of other companies and limited partnerships whose operations Dain Rauscher Wessels considered comparable to the operations of Petro and Star Gas Partners; and
- . other information, financial studies, analyses and investigations and financial, economic and market criteria that Dain Rauscher Wessels deemed relevant in arriving at its opinion dated February , 1999.

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In preparing its opinion dated February , 1999, Dain Rauscher Wessels did not verify any of the above information, and relied upon the information being complete and accurate in all material respects. Dain Rauscher Wessels assumed, with Petro's consent, that the financial forecasts provided to and discussed with Dain Rauscher Wessels were reasonably prepared. Dain Rauscher Wessels also assumed that those financial forecasts were prepared to reflect the best currently available estimates and judgments of the senior managements of Petro and Star Gas Partners as to the expected future performance of Petro and Star Gas Partners, and of the combined company following the proposed merger. In addition, Dain Rauscher Wessels did not conduct a physical inspection or make an independent evaluation or appraisal of the assets of Petro or Star Gas Partners, nor was Dain Rauscher Wessels furnished with any evaluation or appraisal. Dain Rauscher Wessels assumed that the merger will be accounted for as a purchase transaction under generally accepted accounting principles and will be a taxable event to the Petro public common stockholders.

In rendering its opinion dated February , 1999, Dain Rauscher Wessels assumed that in the course of obtaining the necessary regulatory and governmental approvals for the proposed merger, no restriction will be imposed that will have a material adverse effect on the contemplated benefits of the proposed merger. Dain Rauscher Wessels also assumed that the final form of the merger agreement would be substantially similar to the last draft reviewed by Dain Rauscher Wessels. Dain Rauscher Wessels also assumed that the merger representations, warranties and covenants were correct and would be performed, and that the merger conditions would be satisfied without waiver. The Dain Rauscher Wessels opinion dated February , 1999 is based on circumstances as they existed on that date.

The following is a brief summary of the material analyses performed by Dain Rauscher Wessels in its preparation of its opinion dated February , 1999.

#### Unit Reference Value Analysis

Dain Rauscher Wessels performed a unit reference value analysis to determine ranges of reference values for the common units, senior subordinated units and junior subordinated/general partner units. In its judgment, this analysis was required because the senior subordinated units and junior subordinated/general partner units are newly-created classes of units for which no prior public market trading data exists. Dain Rauscher Wessels calculated a range of reference values for the common units so that they could be evaluated on a basis consistent with the other classes of units. Moreover, the determination of reference values for the senior subordinated units and junior subordinated/general partner units was required for Dain Rauscher Wessels to analyze the absolute and relative values of each class of units, as well as to evaluate the aggregate value of the consideration the Petro public common stockholders will receive in the merger.

To determine a range of reference values for each class of unit, Dain Rauscher Wessels employed a discounted distribution model based upon Petro

senior management's forecasts for the pro forma combined entity from the year ended September 30, 1999 through the year ended September 30, 2002, assuming 15-year weather and 30-year weather. Dain Rauscher Wessels also examined a downside case in which distributions per unit remained constant at \$2.30 per year over the forecast period, and a Dain Rauscher Wessels case in which distributions increased at a slower rate than in the 15-year weather case and the 30-year weather case. Dain Rauscher Wessels examined factors including the indicated distributions, the additional senior subordinated units to be issued based upon the performance of Petro and the incentive distributions that are to be shared pro rata by

the senior subordinated units and junior subordinated/general partner units if distributions of available cash exceed target distribution levels. Dain Rauscher Wessels discounted projected distributions for each class of units to a net present value employing discount rates which, in its judgment, reflected:

- (1) prevailing market yields for the Star Gas Partners common units and publicly-traded units of other publicly-traded propane distribution limited partnerships;
- (2) the structural subordination of the various classes of units; and
- (3) the relative risks associated with the indicated distributions, the additional senior subordinated units to be issued based upon the performance of Petro and the incentive distributions.

For each class of unit, Dain Rauscher Wessels calculated net present terminal values employing a perpetuity valuation based upon the discount rate employed for a given class of distribution and the amount of the projected distributions in the year ending September 30, 2002. To reflect the lack of marketability of the junior subordinated/general partner units, Dain Rauscher Wessels considered a range of discounts and applied a discount of 22% to the net present values calculated for those units.

For the common units, Dain Rauscher Wessels applied discount rates of 9.8%-12.0% to the projected indicated distributions. For the senior subordinated units, Dain Rauscher Wessels applied discount rates of 11.0%-14.5% to the projected indicated distributions, discount rates of 13.8%-15.5% to the projected additional senior subordinated units to be issued based upon the performance of Petro and discount rates of 14.3%-16.0% to the projected incentive distributions. For the junior subordinated/general partner units, Dain Rauscher Wessels applied discount rates of 11.8%-15.5% to the projected indicated distributions, discount rates of 13.8%-15.5% to the projected additional senior subordinated units to be issued based upon the performance of Petro and discount rates of 14.3%-16.0% to the projected incentive distributions. The results of the unit reference value analysis and other key assumptions made are detailed in the table below.

	Downside Case	15-Year Weather Case	30-Year Weather Case	Dain Rauscher Wessels Case
Common Unit Reference Value.....	\$ 19.57	\$ 23.63	\$ 27.49	\$ 21.03
Senior Subordinated Unit				
Unit Reference Value.....	\$ 15.22	\$ 18.75	\$ 28.67	\$ 16.56
Unit Exchange Ratio.....	0.11758	0.11758	0.11758	0.11758
Implied Merger Value per Petro Share.....	\$ 1.79	\$ 2.20	\$ 3.37	\$ 1.95
Junior Subordinated/General Partner Unit				
Unit Reference Value.....	\$ 11.09	\$ 13.49	\$ 21.16	\$ 12.02
Unit Exchange Ratio.....	0.14318	0.14318	0.14318	0.14318
Implied Merger Value per Petro Share.....	\$ 1.59	\$ 1.93	\$ 3.03	\$ 1.72

For purposes of performing its other analyses, Dain Rauscher Wessels employed the unit reference values implied by the Dain Rauscher Wessels case as reference values for the subject units.



## Discounted Cash Flow Analysis

Dain Rauscher Wessels performed a discounted cash flow analysis to calculate the implied price per share of Petro common stock based upon senior management's projections assuming 15-year weather and 30-year weather from January 1, 1999 through December 31, 2002, and no acquisitions.

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Using this information, Dain Rauscher Wessels calculated the net present value of Petro's unlevered free cash flows from January 1, 1999 through December 31, 2002 using discount rates ranging from 12.0% to 16.0%. Dain Rauscher Wessels also calculated the net present terminal value of Petro at December 31, 2002 based upon multiples of 6.0x to 8.0x EBITDA, which is earnings before interest, taxes, depreciation and amortization, in the year ending December 31, 2002, and discount rates ranging from 12.0% to 16.0%.

Dain Rauscher Wessels employed the capital asset pricing model to determine a weighted average cost of capital for Petro, and also employed its professional judgment in determining a range of discount rates for use in the analysis. In order to determine an implied net present value per share of Petro common stock, Dain Rauscher Wessels added the net present values of the free cash flows and terminal values, less outstanding debt and preferred stock, net of excess cash. This calculation yielded an implied net present value per share of Petro common stock ranging from \$(1.92) to \$1.19 in the 15-year weather case and \$(0.99) to \$2.44 in the 30-year weather case. Dain Rauscher Wessels noted that the implied merger values calculated in the unit reference value analysis for the senior subordinated units exceeded the implied net present values per share of Petro common stock in each case.

Inherent in any discounted cash flow analysis are the use of a number of assumptions, including the accuracy of management's projections, and the subjective determination of an appropriate terminal value and discount rate to apply to the projected cash flows of the entity under examination. Variations in any of these assumptions or judgments and variables beyond management's control, such as general and regional economies, worldwide oil and gas prices, adverse weather conditions and the availability of personnel and equipment, could significantly alter the results of a discounted cash flow analysis.

## Relative Contribution Analysis

Dain Rauscher Wessels performed a relative contribution analysis to examine the relationship between the percentage ownership of Star Gas Partners that the Petro common stockholders would receive in the merger and Petro's relative contribution to Star Gas Partners' distributable cash flow on a pro forma combined basis. In considering the percentage ownership of Star Gas Partners that the Petro common stockholders would receive in the merger, Dain Rauscher Wessels performed calculations on both a gross units basis and an adjusted units basis. In calculating the gross units basis, Dain Rauscher Wessels treated all classes of units as being of equal value. In determining the adjusted units basis, Dain Rauscher Wessels adjusted the number of units the Petro common stockholders will receive in the merger to reflect the different values of various classes of units implied by Dain Rauscher Wessels' unit reference value analysis. In calculating Petro's and Star Gas Partners' relative contribution to the distributable cash flow of Star Gas Partners on a pro forma combined basis, Dain Rauscher Wessels considered that Petro, as the owner of Star Gas Corporation and all of Star Gas Partners' outstanding subordinated units prior to the merger, was the contributor of the distributable cash flow accruing to that ownership position.

Based upon senior management's normalized estimates for fiscal 1998 for Petro and Star Gas Partners, and the 15-year weather case assumptions for Star Gas Partners on a pro forma combined basis for fiscal 1999, both estimated and normalized, Dain Rauscher Wessels calculated that Petro

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would provide 51.2%, 42.3% and 54.6% of Star Gas Partners' distributable cash flow on a pro forma combined basis for normalized fiscal 1998, estimated fiscal 1999 and normalized fiscal 1999. Dain Rauscher Wessels determined that, in the merger, the Petro common stockholders would receive 45.7% of the ownership of the pro forma combined entity on a gross units basis, and 38.3% on an adjusted

units basis. Based on the exchange ratio of 0.11758 and assuming that the minimum quarterly distribution is \$0.575 following the merger and the minimum quarterly distribution is paid to holders of senior subordinated units, Dain Rauscher Wessels estimated that the Petro public common stockholders who receive senior subordinated units would receive an annual distribution of \$0.27 for each share of common stock exchanged in the merger. Dain Rauscher Wessels noted that Petro does not presently pay a dividend on its common stock.

Net Asset Value Analysis

Dain Rauscher Wessels performed a net asset value analysis to examine values that the Petro common stockholders might realize if Petro pursued orderly liquidations of its home heating oil business and investment in Star Gas Partners, and satisfied its obligations to creditors and preferred stockholders. For purposes of this analysis, Dain Rauscher Wessels selected six criteria for valuing Petro's home heating oil business:

- (1) the mean EBITDA multiple Petro paid in its ten largest acquisitions of home heating oil businesses in 1996-1997, adjusted for a 10% size premium;
- (2) the mean price per gallon of target annual volume Petro paid in those acquisitions, adjusted for a 10% size premium;
- (3) the mean price per target customer Petro paid in those acquisitions, adjusted for a 10% size premium;
- (4) the mean EBITDA multiple Star Gas Partners paid in its acquisitions of eleven propane retailers in 1994-1998, adjusted for a 10% size premium;
- (5) the mean EBITDA multiple paid in the selected transactions examined in Dain Rauscher Wessels' comparable transactions analysis; and
- (6) a growth rate adjusted EBITDA multiple implied by an analysis of the public market multiples of companies engaged in consolidating fragmented industries.

In each scenario, Dain Rauscher Wessels valued Petro's current investment in Star Gas Partners by multiplying the number of subordinated units and implied general partner units by the most recent common unit price, less a 48% discount to reflect structural subordination and the fact that the subordinated units did not receive a distribution for the quarter ended September 30, 1998 and will not receive a distribution for the quarter ended December 31, 1998. Dain Rauscher Wessels assumed that outstanding debt and preferred stock were liquidated at par or liquidation value, plus applicable prepayment penalties, and further assumed \$5.0 million of transaction costs. The results of the net asset value analysis are detailed in the table below.

	Criteria						Mean	Median
	1	2	3	4	5	6		
Implied Value per Share of Petro Common Stock	\$0.00	\$1.15	\$4.35	\$0.00	\$0.45	\$0.00	\$0.99	\$0.23

Dain Rauscher Wessels noted that excluding criterion (3) above, the values per share of Petro common stock implied by these analyses ranged from \$0.00 to \$1.15, with a mean of \$0.32 and a median of \$0.00. Dain Rauscher Wessels believes that criterion (3) is less reliable as a means of valuing Petro's home heating oil business due to a lack of consistency in the price per target customer Petro paid in those acquisitions. Dain Rauscher Wessels applied its subjective professional judgment in comparing these values to the implied merger value of \$1.95 that the Petro public common stockholders will receive in the merger, and noted that the implied merger value exceeded each of the values implied by the criteria above, except criterion (3).

Comparable Company Trading Analysis

Using publicly available information, Dain Rauscher Wessels compared, based upon market trading values as of January 22, 1999, multiples of specified financial criteria, including:

- . revenues;
- . EDITDA;
- . EBIT, which is earnings before interest and taxes;
- . net income;
- . cash flow from operations, which is net income plus depreciation and amortization, deferred taxes and other non-cash items, but not including changes in working capital accounts; and
- . tangible book value of equity.

Dain Rauscher Wessels compared these multiples for Petro to other companies which, in Dain Rauscher Wessels' judgment, were comparable to Petro for purposes of this analysis. Dain Rauscher Wessels noted that Petro is the only publicly-traded company engaged primarily in the distribution of home heating oil. Accordingly, Dain Rauscher Wessels selected for comparison companies engaged to varying degrees in the wholesale and retail marketing and distribution of energy and fuel. Dain Rauscher Wessels considered other factors in selecting companies for comparison, including size, financial condition and geographic scope of operations. The group of companies Dain Rauscher Wessels used in the comparison included:

- .Getty Petroleum Marketing Inc.,
- .Meteor Industries, Inc.,
- .Midcoast Energy Resources, Inc.,
- .Streicher Mobile Fueling, Inc.,
- .TransMontaigne Inc. and
- .World Fuel Services Corporation.

Net Market Capitalization (1) to Latest Twelve Months	Comparable Companies				
	Mean	Median	High	Low	Petro (2)
Revenues.....	0.3x	0.2x	0.9x	0.1x	0.7x
EBITDA.....	10.5x	8.5x	23.9x	3.8x	8.3x
EBIT.....	11.3x	11.8x	15.9x	5.7x	NM
Equity Market Value to Latest Twelve Months					
Net Income.....	15.7x	12.5x	29.3x	8.7x	NM
Cash Flow from Operations.....	7.7x	6.4x	12.1x	3.8x	14.7x
Tangible Book Value of Equity.....	1.6x	1.8x	2.1x	0.7x	NM

NM = Not meaningful

(1) Defined as equity market value plus book value of debt and liquidation/book value of preferred stock, less excess cash and equivalents.

(2) Petro latest twelve months EBITDA and cash flow from operations include Star Gas Partners distributions.

In addition, Dain Rauscher Wessels used publicly available information, based

upon market trading values as of January 22, 1999, to compare specified financial criteria for a group of publicly-traded propane distribution limited partnerships that it considered to be comparable to Star Gas Partners, including:

- . multiples of latest twelve months EBITDA and cash flow from operations,
- . distribution yields and
- . debt to book capitalization ratios.

For purposes of analysis, this group was composed of:

- . Amerigas Partners, L.P.,
- . Cornerstone Propane Partners, L.P.,
- . Ferrellgas Partners, L.P.,
- . Heritage Propane Partners, L.P. and
- . Suburban Propane Partners, L.P.

Dain Rauscher Wessels calculated an adjusted equity market value for each publicly-traded propane distribution limited partnership by valuing the common units of each limited partnership at market value, the subordinated units at 65% of the common unit market value, and the implied general partner units at 85% of the common unit market value. For purposes of this analysis, Dain Rauscher Wessels valued Star Gas Partners' subordinated units at 50% of the common unit market value to reflect the fact that the subordinated units did not receive a distribution for the quarter ended September 30, 1998 and will not receive a distribution for the quarter ended December 31, 1998. Dain Rauscher Wessels also calculated an adjusted market capitalization for each limited partnership as the sum of adjusted equity market value plus the book value of debt, less excess cash and equivalents.

	Comparable Companies				Star Gas Partners
	Mean	Median	High	Low	
Adjusted Market Capitalization to Latest Twelve Months EBITDA.....	10.3x	10.6x	11.0x	9.0x	11.0x
Adjusted Equity Market Value to Latest Twelve Months Cash Flow from Operations.....	8.7x	8.9x	10.7x	7.2x	8.8x
Common Unit Distribution Yields.....	10.0%	10.1%	11.8%	8.9%	11.6%
Total Debt to Book Capitalization.....	81.1%	86.8%	109.2%	49.9%	65.7%

The comparable company trading analysis is a valuation methodology Dain Rauscher Wessels used to determine whether Petro and Star Gas Partners were reasonably valued by the public trading market, at existing market prices, in relation to the public trading markets' valuation of similar companies and limited partnerships. Dain Rauscher Wessels did not establish any specific valuation for Petro or Star Gas Partners in this analysis.

No public company Dain Rauscher Wessels used as a comparison is identical to Petro, Star Gas Partners or the business segment for which a comparison is being made. An analysis of the results of such a comparison is not mathematical; rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the comparable companies and other factors that could affect the public trading value of the comparable companies to which Petro and Star Gas Partners were being compared.

#### Comparable Transactions Analysis

Dain Rauscher Wessels conducted a comparable transactions analysis whereby it examined the terms of recent publicly-disclosed acquisitions of businesses and



Latest Twelve Months									
EBITDA.....	4.1x	3.9x	4.9x	3.4x	4.2x	4.2x	4.6x	3.4x	11.0x
Target Gallon of Annual									
Volume.....	\$ 0.55	\$ 0.55	\$ 0.87	\$ 0.37	\$ 0.84	\$ 0.89	\$ 1.02	\$ 0.58	\$ 0.87
Target Customer.....	\$ 630	\$ 533	\$ 1,037	\$ 334	\$ 1,194	\$ 1,055	\$ 2,010	\$ 658	\$ 1,004

(1) Calculated using the implied merger value and assumptions regarding the value of Petro's current investment in Star Gas Partners.

Merger Premiums Analysis

Dain Rauscher Wessels examined percentage premiums paid in all publicly-disclosed stock-for-stock transactions with transaction enterprise values of \$100-\$500 million since January 1, 1998. Dain Rauscher Wessels also examined percentage premiums paid in all publicly-disclosed stock-for-stock energy industry transactions with transaction enterprise values of \$100-\$500 million since January 1, 1994. Dain Rauscher Wessels used the implied merger value of \$1.95 to calculate the implied premium to be received pursuant to the merger by the Petro public common stockholders.

Implied Premium/ Discount to:	Stock-for-Stock Transactions, \$100-\$500 million, since January 1, 1998				Stock-for-Stock Energy Industry Transactions, \$100-\$500 million, since January 1, 1994				Petro	
	Mean	Median	High	Low	Mean	Median	High	Low	Prior to Announcement	Current (1)
1 Day prior to Announcement	26.5%	23.2%	87.5%	-21.4%	24.7%	14.4%	91.0%	-0.1%	3.9%	94.7%
1 Week prior to Announcement	33.2%	32.2%	93.6%	-22.3%	30.8%	25.1%	99.4%	2.4%	11.3%	94.7%
4 Weeks prior to Announcement	41.7%	39.2%	208.0%	-11.6%	34.3%	26.9%	95.7%	5.2%	7.4%	94.7%

(1) Based on the closing price of \$1.00 on January 22, 1999.

Dain Rauscher Wessels' Engagement Agreement

The Petro board retained Dain Rauscher Wessels to render its opinion dated February , 1999 on the basis of its experience with mergers and acquisitions in the energy industry, and on the basis of its experience with publicly-traded energy industry limited partnerships. Dain Rauscher Wessels is a nationally recognized investment banking firm and is regularly engaged in the valuation of businesses and their securities in mergers and acquisitions, corporate restructurings, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. In the ordinary course of its business, Dain Rauscher Wessels and its affiliates may actively trade the debt and equity securities of Petro and Star Gas Partners for their own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

Under an engagement agreement between Petro and Dain Rauscher Wessels, Petro paid Dain Rauscher Wessels an engagement fee of \$50,000 upon the execution of the engagement agreement and \$375,000 upon the initial delivery of its written opinion to the Petro board. Petro has agreed to reimburse Dain Rauscher Wessels for its out-of-pocket expenses not to exceed \$50,000 without Petro's consent, and to indemnify Dain Rauscher Wessels and its controlling persons against specified liabilities and expenses relating to or arising out of the transaction, including certain liabilities under U.S. federal securities laws.

No portion of Dain Rauscher Wessels' fee was contingent upon the closing of the transaction or whether Dain Rauscher Wessels rendered a favorable opinion regarding the proposed merger. Petro and Dain Rauscher Wessels negotiated at arm's length the terms of Dain Rauscher Wessels' engagement agreement with Petro, which are customary for transactions of this nature, and the Petro board was aware of the terms at the time of its approval of the merger agreement.

After delivering its opinion dated October 6, 1998, Dain Rauscher Wessels was invited to serve as one of seven co-managers of the equity offering.

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#### Projections of Petro and Star Gas Partners

Petro and Star Gas Partners provided A.G. Edwards and Dain Rauscher Wessels with projected financial data for the years 1999 through 2003. The projections were not prepared with a view to public disclosure or compliance with published guidelines of the Securities and Exchange Commission or the guidelines established by the American Institute of Certified Public Accountants regarding projections. The projections are included in this proxy statement only because they were made available to A.G. Edwards and Dain Rauscher Wessels. These projections were prepared as of September 30, 1998. Neither A.G. Edwards, Dain Rauscher Wessels nor KPMG Peat Marwick, LLP, Star Gas Partners' independent certified public accountants, examined, compiled or applied any procedures for the projections or expressed any opinion or provided any kind of assurance on those projections.

While presented with numerical specificity, the projections are based on a variety of assumptions relating to the business of Petro and Star Gas Partners that, although considered appropriate by Petro and Star Gas Partners at the time, may not be realized. Moreover, the projections and the assumptions upon which they are based are subject to significant uncertainties and contingencies, many of which are beyond the control of Petro and Star Gas Partners. Consequently, the projections and the underlying assumptions are necessarily speculative in nature and inherently imprecise, and there can be no assurance that projected financial results will be realized. It is expected that there will be differences between actual and projected results, and projected results and actual results are likely to vary materially from those shown, and that variance will likely increase over time. None of the financial advisors, Petro, Star Gas Partners, the special committee nor any of their affiliates or advisors intends to update or otherwise revise the projections.

The inclusion of the projections in this proxy statement should not be regarded as an indication that the financial advisors, Petro, Star Gas Partners, the special committee or any of their affiliates or advisors considers the projections likely to be an accurate prediction of future results. Star Gas Partners common unitholders and Petro common stockholders are cautioned not to place undue reliance on the projections, which should be read in conjunction with the information relating to the business, assets and financial condition of Star Gas Partners included herein.

The projections contain forward-looking information and are subject to a number of risks discussed elsewhere in this proxy statement. See "Risk Factors." These risks are likely to cause actual results in the future to differ significantly from results expressed or implied in the projections.

The projections described are the most recent versions of numerous projections provided to the financial advisors. Petro and Star Gas Partners believe that discussion of earlier versions would not add materially to the information provided here. Earlier versions have, however, been filed as an exhibit to the registration statement.

Shown below is a summary of the projections prepared by Petro and Star Gas Partners as of September 30, 1998 and provided to the financial advisors.

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#### Petro Projections on a Stand Alone Basis

In order to develop projections for the fiscal years ending December 31, 1999-2003, Petro first began with formulating a revised 1998 normalized budget. The normalized 1998 budget made assumptions relating to revenues and delivery expenses based on volumes which would be associated with a "normal" winter. In

addition, Petro gave full year impact in the normalized 1998 budget to \$11 million in cost reduction initiatives implemented during 1998. These estimated annual cost reductions include \$3.5 million for the elimination of corporate and branch overhead, \$3.5 million for the rationalization of branch operating expenses and \$4 million in reduced benefit plan, personnel and other operating expenses. For these purposes, Petro ran two cases assuming that "normal" weather was based on either

- (a) the historical average temperature of the relevant measurement statistics over the 15-year period from 1983 through 1997 derived from information published by the U.S. Department of Commerce-National Oceanic and Atmospheric Administration ("NOAA") or
- (b) the historical average temperature of the relevant measurement statistics as published by the NOAA over the 30-year period from 1961 through 1990.

The projections for the fiscal years ending December 31, 1999-2003 were based on the normalized 1998 budget adjusted for the following:

- (a) base customer attrition of 4.0% annually,
- (b) an increase in retail gross margins of \$0.01 per gallon annually,
- (c) an increase in service revenues and expenses (net of the impact of attrition) of 2.0% annually,
- (d) an increase in net operating costs of 2.0% annually, and
- (e) no additional acquisitions due to capital constraints.

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Petro Projections on a Stand Alone Basis--30-Year Case  
(In thousands)

	For the Years Ending December 31,					
	1998	1999	2000	2001	2002	2003
Operating Information						
Heating Oil EBITDA.....	\$ 46,900	\$ 45,548	\$ 43,867	\$ 42,283	\$ 40,766	\$ 39,288
Distributions(1).....	4,367	4,205	4,586	5,159	5,575	5,581
Total EBITDA.....	51,267	49,753	48,453	47,442	46,341	44,869
Depreciation and Amortization(2).....	(28,710)	(23,500)	(19,500)	(15,500)	(11,500)	(8,000)
EBIT.....	22,557	26,253	28,953	31,942	34,841	36,869
Interest Expense.....	(31,444)	(30,971)	(30,675)	(28,749)	(28,083)	(28,035)
Pre-Tax Income.....	(8,887)	(4,718)	(1,722)	3,193	6,758	8,834
Income Taxes.....	(500)	(500)	(500)	(500)	(500)	(500)
Equity in Star Gas						
Partner Earnings.....	997	1,250	1,175	1,202	1,295	1,389
Distributions.....	(4,367)	(4,205)	(4,586)	(5,159)	(5,575)	(5,581)
Net Income(3).....	\$ (12,757)	\$ (8,173)	\$ (5,633)	\$ (1,264)	\$ 1,978	\$ 4,142
Other Information						
Maintenance						
Capital Expenditures...	\$ 2,776	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000
Net Debt and Preferred Stock (4).....	287,934	292,348	281,906	270,549	259,627	250,129

Petro Projections on a Stand Alone Basis--15-Year Case  
(In thousands)



For the Years Ending December 31,

	1998	1999	2000	2001	2002	2003
<b>Operating Information</b>						
Heating Oil EBITDA.....	\$ 44,749	\$ 43,392	\$ 41,769	\$ 40,237	\$ 38,770	\$ 37,342
Distributions(1).....	4,367	2,719	2,772	3,013	3,300	3,614
Total EBITDA.....	49,116	46,111	44,541	43,250	42,070	40,956
Depreciation and Amortization(2).....	(28,710)	(23,500)	(19,500)	(15,500)	(11,500)	(8,000)
EBIT.....	20,406	22,611	25,041	27,750	30,570	32,956
Interest Expense.....	(31,444)	(30,971)	(30,675)	(28,869)	(29,283)	(29,235)
Pre-Tax Income.....	(11,038)	(8,360)	(5,634)	(1,119)	1,287	3,721
Income Taxes.....	(500)	(500)	(500)	(500)	(500)	(500)
<b>Equity in Star Gas</b>						
Partner Earnings.....	442	739	780	920	1,063	1,198
Distributions.....	(4,367)	(2,719)	(2,772)	(3,013)	(3,300)	(3,614)
Net Income(3).....	\$ (15,463)	\$ (10,840)	\$ (8,126)	\$ (3,712)	\$ (1,451)	\$ 805
<b>Other Information</b>						
<b>Maintenance Capital</b>						
Expenditures.....	\$ 2,776	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000
<b>Net Debt and Preferred</b>						
Stock(4).....	290,085	289,957	283,427	276,382	270,932	266,547

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- (1) Distributions in 1998 represent actual distributions received on the units and general partner interest owned by Petro; distributions in 1999-2003 represent expected distributions based on Star Gas Partners' available cash, which may be less than the full minimum quarterly distribution.
  - (2) Depreciation and Amortization declines from period to period since the existing assets being depreciated or amortized are not replaced on a stand-alone basis.
  - (3) Net income includes equity in Star Gas Partners' earnings but excludes distributions.
  - (4) Reflects total debt less net working capital plus preferred stock.

**Star Gas Partners Projections on a Stand Alone Basis**

In order to develop projections for the fiscal years ending September 30, 1999-2003, Star Gas Partners first began with formulating a revised normalized 1998 budget. The normalized 1998 budget made certain adjustments to revenues and expenses based on the expected increase in volumes that would be associated with a "normal" winter as well as acquisitions completed during fiscal 1998. For these purposes, Star Gas Partners ran two cases assuming that "normal" weather was based on either

- (a) the historical average temperature of the relevant measurement statistics over the 15-year period from 1983 through 1997 derived from information published by the NOAA, or
- (b) the historical average temperature of the relevant measurement statistics as published by the NOAA over the 30-year period from 1961 through 1990.

The Projections for the fiscal year ending September 30, 1999 through 2003 include the following additional assumptions:

- (a) \$5 million of acquisitions are made in 1999 and \$10.0 million of acquisitions are made annually in the years that follow,
- (b) the acquisitions are made at a purchase price of 6.5x the first year EBITDA of the acquired assets,
- (c) additional debt is incurred at an annual interest rate of 7.25%,
- (d) acquisitions are financed with debt and equity such that a pro forma debt to EBITDA ratio of 4.5x is maintained,
- (e) common units are issued at \$22.00 per unit and
- (f) maintenance capital expenditures on the acquired assets are assumed to be approximately 2.2 cents per retail gallon sold.



Implied General Partner Units.....	128	131	138	145	151	157
	-----	-----	-----	-----	-----	-----
Total Units.....	6,383	6,555	6,918	7,259	7,552	7,832
	=====	=====	=====	=====	=====	=====

Star Gas Partners Projections Pro Forma for the Transaction

Star Gas Partners ran two cases of projections pro forma for the transaction.

The first case assumes that volumes reflect weather normalization based on the historical average temperature of the relevant measurement statistics over the 15-year period from 1983 through 1997 derived from information published by the NOAA.

The second case reflects weather normalization based on the historical average temperature of the relevant measurement statistics as published by the NOAA over the 30-year period from 1961 through 1997.

The pro forma projections for the fiscal years ended September 30, 1998 through 2003 include the following additional assumptions:

- (a) the specific terms of the merger as described in "The Transaction,"
- (b) \$90.0 million of new debt issued at 7.50%,
- (c) the redemption of \$206.3 million in senior and subordinated notes, the redemption of \$34.2 million in preferred stock, and the restructuring of \$66.2 million of senior and subordinated notes,
- (d) issuance of approximately \$170.0 million of new common units at \$19.00 per common unit,
- (e) acquisitions are financed with debt and equity such that a debt to EBITDA ratio of up to 4.0x is maintained at all times,
- (f) common units are issued at annualized yields of 9.5% in 1999 and at 9.0% in 2000 and thereafter,

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- (g) base and projected EBITDA, maintenance capital expenditures, acquisition and operating assumptions for Star Gas Partners are the same as previously defined in "Star Gas Partners Projections on a Stand-Alone Basis,"
- (h) base and projected EBITDA, maintenance capital expenditures and operating assumptions for Petro reflect those as previously defined in "Petro Projections on a Stand-Alone Basis" plus incremental EBITDA and maintenance capital expenditures associated with the Petro acquisitions,
- (i) annual operating synergies associated with the transaction of \$500,000 and
- (j) transaction expenses net of underwriting discounts and commissions of approximately \$10.9 million.

The pro forma projections include the following assumptions regarding Petro's ability to make acquisitions:

- (a) Under the 30-year case, \$15.0 million of acquisitions are made in 1999 and \$30.0 million of acquisitions are made annually thereafter; and under the 15-year case, \$15.0 million of acquisitions are made in 1999 and \$25.0 million of acquisitions are made annually thereafter,
- (b) acquisitions are made at a purchase price of 4.6x the first year EBITDA of the acquired assets, and
- (c) customer attrition associated with acquisitions is 16.2% in year 1, 12.6% in year 2, 6.8% in year 3, and 6.1% in year 4 and thereafter.

Star Gas Partners Projections  
Pro Forma for Transaction--30-Year Case  
(In thousands)

For the Years Ending September 30,

	1998	1999	2000	2001	2002	2003
Operating Income						
Propane EBITDA.....	\$ 23,722	\$ 24,106	\$ 25,260	\$ 26,797	\$ 28,335	\$ 29,873
Heating Oil EBITDA.....	46,900	47,215	50,369	54,883	59,097	63,108
Synergistic Savings.....	500	500	500	500	500	500
Pro Forma Combined						
EBITDA.....	71,122	71,821	76,129	82,180	87,932	93,481
Depreciation and Amortization.....	36,097	37,186	40,066	43,576	46,921	50,274
EBIT.....	35,025	34,634	36,063	38,604	41,011	43,206
Interest Expense (1)....	(24,036)	(24,672)	(26,122)	(27,845)	(29,557)	(31,195)
Pre-Tax Income.....	10,989	9,962	9,941	10,758	11,455	12,012
Income Taxes.....	(525)	(525)	(625)	(675)	(725)	(775)
Net Income.....	\$ 10,464	\$ 9,437	\$ 9,316	\$ 10,083	\$ 10,730	\$ 11,237
Other Information						
Maintenance Capital						
Expenditures.....	\$ 6,110	\$ 6,273	\$ 6,393	\$ 6,516	\$ 6,641	\$ 6,768
Total Long Term Debt....	\$279,081	\$293,949	\$317,850	\$342,052	\$365,061	\$387,256
Average Units						
Outstanding						
Common Units.....	12,909	12,951	13,270	13,816	14,366	14,921
Senior Subordinated						
Units.....	2,491	2,491	2,794	3,097	3,400	3,400
Junior Subordinated						
Units.....	430	430	430	430	430	430
General Partner Units...	323	323	323	323	323	323
Total Units.....	16,154	16,196	16,818	17,667	18,520	19,074

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Star Gas Partners Projections  
Pro Forma for Transaction--15-Year Case  
(In thousands)

	For the Years Ending September 30,					
	1998	1999	2000	2001	2002	2003
Operating Income						
Propane EBITDA.....	\$ 22,316	\$ 22,674	\$ 23,749	\$ 25,182	\$ 26,615	\$ 28,048
Heating Oil EBITDA.....	44,749	45,013	47,551	50,924	54,081	57,080
Synergistic Savings.....	500	500	500	500	500	500
Pro Forma Combined						
EBITDA.....	67,565	68,187	71,800	76,606	81,196	85,628
Depreciation and Amortization.....	(36,097)	(37,186)	(39,688)	(42,447)	(45,128)	(47,818)
EBIT.....	31,468	31,001	32,113	34,158	36,068	37,810
Interest Expense (1)....	24,036	(24,139)	(24,869)	(26,226)	(27,588)	(28,896)
Pre-Tax Income.....	7,432	6,862	7,243	7,932	8,479	8,914
Income Taxes.....	(525)	(525)	(525)	(525)	(525)	(525)
Net Income.....	\$ 6,907	\$ 6,337	\$ 6,718	\$ 7,407	\$ 7,954	\$ 8,389
Other Information						
Maintenance Capital Ex-						
penditures.....	\$ 6,110	\$ 6,194	\$ 6,313	\$ 6,434	\$ 6,558	\$ 6,683
Total Long Term Debt....	279,081	279,232	298,005	317,226	335,588	353,314
Average Units						
Outstanding						
Common Units.....	12,909	13,319	14,044	14,646	15,202	15,741
Senior Subordinated						

Units.....	2,491	2,491	2,491	2,491	2,491	2,491
Junior Subordinated Units.....	430	430	430	430	430	430
General Partner Units...	323	323	323	323	323	323
	-----	-----	-----	-----	-----	-----
Total Units.....	16,154	16,564	17,289	17,890	18,447	18,986
	=====	=====	=====	=====	=====	=====

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(1) Interest expense reflects the net cash interest expense only.

THE TRANSACTION

The following discussion includes complete summaries of the material terms of the merger agreement and the exchange agreement. The merger agreement and the exchange agreement are attached as Annexes A and B of this proxy statement and are incorporated by reference. Star Gas Partners common unitholders and Petro common stockholders are urged to read the merger agreement, the exchange agreement and other annexes in their entirety.

Description of the Transaction

The transaction has four principal parts:

- (1) Star Gas Partners' acquisition of Petro, which will be accomplished through
  - . the exchange by certain affiliates of Petro of 11,834,183 shares of Petro common stock for approximately 772,705 Star Gas Partners senior subordinated units, 430,395 junior subordinated units and 321,467 general partner units and a .01% general partner interest in Star Gas Propane;
  - . the exchange by the Petro public common stockholders of 14,618,087 shares of Petro common stock for approximately 1,718,795 Star Gas Partners senior subordinated units; and
  - . the merger of Petro/Mergeco, Inc., a wholly-owned subsidiary of Star Gas Partners, with and into Petro, with Petro surviving the merger;
- (2) The equity offering and the debt offering;
- (3) The withdrawal of Star Gas Corporation as the general partner of Star Gas Partners and Star Gas Propane and the election of Star Gas LLC as the successor general partner; and
- (4) The adoption of certain amendments to the partnership agreements of Star Gas Partners and Star Gas Propane.

Description of the Merger and the Exchange

The Merger

Subject to the terms and conditions of the merger agreement, Petro/Mergeco, Inc. will merge with and into Petro at the completion of the transaction. The separate corporate existence of Petro/Mergeco, Inc. will end. Petro will survive the merger and continue its corporate existence as a Minnesota corporation and as a wholly-owned indirect subsidiary of Star Gas Propane.

The merger agreement provides that, at the effective time and without any action on the part of the Petro stockholders, the issued and outstanding shares of Petro capital stock shall be treated as follows:

- . Each share of common stock held by Petro as treasury stock or issued to Petro/Mergeco, Inc. as a result of the merger will be canceled and retired;
- . Each outstanding share of Petro common stock, other than treasury shares, shares held by Petro/Mergeco, Inc. or shares as to which dissenters rights are perfected under the Minnesota Business Corporation Act, will be converted into .11758 of a Star Gas Partners

senior subordinated unit;

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- . Each outstanding share of Petro junior convertible preferred stock will be converted into .13064 of a Star Gas Partners common unit;
- . Each outstanding share of 12 7/8% preferred stock will be converted into the right to receive cash in the amount of \$23.00 plus accrued and unpaid dividends or a lesser amount to which a holder may agree in writing;
- . Each outstanding share of Petro Class B common stock will remain unchanged;
- . Each share of Petro common stock held by a dissenting common stockholder who has perfected his dissenters' rights under the Minnesota Business Corporation Act, will represent only the right to receive "fair value" for those shares, as determined under that act; and
- . Each outstanding vested option to purchase shares of Petro common stock granted to employees and directors of Petro and its subsidiaries will be converted into an option to purchase .11758 of a Star Gas Partners senior subordinated unit at an exercise price equal to the quotient of dividing the original exercise price by .11758.

No fractional Star Gas Partners senior subordinated units or common units will be issued in the merger. In place of any fractional senior subordinated units, each Petro common stockholder who would otherwise be entitled to receive a fraction of a senior subordinated unit will receive an amount in cash. This cash amount will be equal to the product obtained by multiplying the fraction by the closing price of the Star Gas Partners senior subordinated units on their first day of trading on the New York Stock Exchange, as reported in an authoritative source. The cash amount received by Petro common stockholders will be calculated without interest and to the nearest cent.

#### The Exchange

Subject to the terms and conditions of the exchange agreement, immediately prior to the merger:

. Irik P. Sevin, Audrey L. Sevin, Hanseatic Corp. and Hanseatic Americas LDC will contribute

--a total of 2,256,471 shares of Petro common stock to Star Gas LLC for all of the ownership interests of Star Gas LLC; and

--a total of 3,005,972 shares of Petro common stock to Star Gas Partners for 430,395 junior subordinated units.

. Star Gas LLC will contribute its 2,256,471 shares of Petro common stock for 321,467 Star Gas Partners general partner units and a .01% general partner interest in Star Gas Propane.

. Other affiliated Petro common stockholders of Petro will contribute 6,571,740 shares of Petro common stock for 772,705 Star Gas Partners senior subordinated units.

#### Related Financing and Refinancing Transactions

The refinancing of Petro's outstanding debt and preferred stock is an integral element of the transaction. The purpose of the refinancing is to substantially reduce Petro's ongoing borrowing costs, which is expected to increase the cash flow of the combined entity. This refinancing will be accomplished through several related transactions that are described below. These related transactions will close substantially simultaneously with the closing of the transaction.

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Equity Offering and Debt Offering

Key elements in the related financing are the equity offering and the debt offering. Star Gas Partners will offer for sale to the public approximately 8.9 million common units. The net proceeds of this offering are estimated to be \$159.9 million assuming an initial offering price of \$19.00 per common unit. Petro will sell in a private placement to institutional investors approximately \$90.0 million of notes. The net proceeds of this offering are estimated to be \$87.9 million. It is expected that Star Gas Partners and Petro Holdings, Inc. will guarantee the notes issued in the debt offering. See "Description of Certain Indebtedness."

The net proceeds of the equity offering and the debt offering will be used to redeem Petro's public debt and preferred stock and to pay for the expenses of the transaction.

#### Description of Exchange of Petro Private Debt and Redemption of Preferred Stock

Petro has entered into agreements with the holders of

- (1) its outstanding 10.90% Senior Notes due 2002 in the aggregate principal amount of \$60 million; and
- (2) its 14.1% Senior and Subordinated Notes due 2001 in the aggregate principal amount of \$4.1 million.

Under these agreements at the completion of the transaction:

- (a) the holders of the 10.90% senior notes will exchange those notes for \$63.1 million aggregate principal amount of 9.0% Senior Notes due 2002 of Petro; and
- (b) the holders of the 14.1% senior and subordinated notes will exchange those notes for \$2.2 million aggregate principal amount of 10.25% Senior Notes due 2001 of Petro and \$2.2 million principal amount of 10.25% Subordinated Notes due 2001 of Petro. The new 9.0% senior notes and the new 10.25% senior notes and subordinated notes will be guaranteed by Star Gas Partners and Petro Holdings and its subsidiaries.

Petro has also entered into an agreement with the holder of \$4.1 million in face value of its 1989 preferred stock to redeem the 1989 preferred stock at 100% of face value plus accrued but unpaid dividends immediately prior to the completion of the transaction.

#### Description of Petro Public Debt and Public Preferred Stock Exchange Offers

In October 1998, Petro completed an exchange offer with the holders of its 10 1/8% notes, 9 3/8% debentures and 12 1/4% debentures and entered into individually negotiated agreements with the holders of its 12 7/8% preferred stock.

In the debt exchange offer and the preferred stock agreements, the holders of approximately 98.5% in aggregate principal amount and liquidation preference of Petro's public debt and preferred stock exchanged those securities for a like principal amount and liquidation preference of new securities. The terms of those securities are in all material respects the same as the terms of the old securities, except that

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- (1) the new debt securities are senior to the old debt securities, and
- (2) the terms of the new debt securities and the new preferred stock
  - (a) give Petro the right to redeem these securities at the closing of the transaction at the following redemption prices:
    - . 103.5% of face value for the new 12 1/4% debentures;
    - . 100% of face value for the new 10 1/8% notes and the new 9 3/8% debentures; and
    - . \$23.00 per share for the new 12 7/8% preferred stock; and

(b) eliminate substantially all covenants from the indentures under which the old debt securities were issued.

The tendering holders of the old 12 7/8% preferred stock have also granted Petro an irrevocable proxy to vote their shares of preferred stock in favor of the acquisition proposal at the special meeting.

In the debt exchange offer, Petro issued an aggregate of 786,690 shares of junior convertible preferred stock to the tendering holders. At the completion of the transaction, those shares will be converted into an aggregate of 102,773 Star Gas Partners common units in the merger. Holders of substantially all of these shares have also granted Petro an irrevocable proxy or have agreed to vote these shares in favor of the acquisition proposal.

#### Description of the Merger Agreement

##### Completion of the Transaction; Closing

The merger agreement provides that the merger will be effective at the completion of the transaction. The completion of the transaction will follow the filing of a certificate of merger with the Delaware Secretary of State and articles of merger with the Minnesota Department of State. The closing of the merger will occur after the day on which the last of the conditions to the merger have been satisfied or waived.

##### Exchange of Certificates in the Merger

For holders of Petro common stock and junior preferred stock: Promptly after completion of the transaction, the exchange agent, American Stock Transfer & Trust Company, will mail transmittal materials to each recordholder of Petro common stock and junior preferred stock for use in effecting the surrender of their certificates. However, the exchange agent will not mail transmittal materials to dissenting common stockholders. The transmittal materials are for use by each recordholder in surrendering his certificates in exchange for certificates representing senior subordinated units or common units, as appropriate, and cash for any fractional senior subordinated units or common units.

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Note: Petro common stockholders should not send in their certificates until they receive transmittal materials from the exchange agent.

For holders of Petro 12 7/8% preferred stock: Promptly after the completion of the transaction, the exchange agent will mail transmittal materials to each recordholder of Petro 12 7/8% preferred stock for use in effecting the surrender of his certificates. The transmittal materials are for use by each recordholder in surrendering his certificates in exchange for cash in the aggregate amount payable for the surrendered Petro 12 7/8% preferred stock.

The exchange agent may impose reasonable and customary terms and conditions upon the acceptance of certificates in order to effect an orderly exchange.

Neither the exchange agent nor Star Gas Partners, Petro/Mergeco, Inc. or Petro shall be liable to any former Petro common stockholder for any amount properly delivered to a public official pursuant to applicable abandoned property, escheat or similar laws.

Recordholders of Petro common stock and junior preferred stock immediately before the effective time who comply with the certificate exchange procedures will be entitled to receive distributions from Star Gas Partners in respect of the number of senior subordinated units or common units, as the case may be, into which their shares of Petro common stock or Petro junior preferred stock have been converted.

##### Covenants of Star Gas Partners and Petro in the Merger Agreement

The merger agreement generally provides that before the completion of the transaction, Petro and Star Gas Partners will conduct their business in the ordinary course consistent with past practice. They have agreed to use reasonable best efforts to preserve their business organizations intact, maintain their rights, franchises, goodwill and assets, keep available the services of their employees, and preserve their relationships with customers,



suppliers and others.

#### Representations and Warranties

The merger agreement includes standard representations and warranties by Petro and Star Gas Partners as to themselves and their subsidiaries concerning:

- . organization, standing and authority;
- . capitalization;
- . the power and authority to execute the merger agreement, including necessary corporate or partnership approval, subject to equityholder approval;
- . absence of defaults caused by execution of the merger agreement;
- . the accuracy of financial statements and reports filed with the SEC;
- . pending or threatened litigation;
- . compliance with applicable laws;
- . the absence of undisclosed contracts and defaults;
- . brokers and finders fees;

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- . employee compensation and benefit plans and related matters;
- . labor matters;
- . the absence of violations or liabilities under environmental laws;
- . certain tax matters;
- . the absence of any necessary regulatory approvals of the merger, except under the Hart-Scott-Rodino Act;
- . the conduct of business in the ordinary and usual course and the absence of certain materially adverse changes;
- . certain insurance matters;
- . the condition and sufficiency of certain tangible assets; and
- . the ownership and rights to use certain intellectual property.

#### Conditions to Completion of the Merger

The merger agreement generally provides that the obligations of each of Petro and Star Gas Partners to complete the merger are subject to a number of conditions, including the following:

- . approval of the transaction by the Petro common stockholders and the Star Gas Partners common unitholders;
- . expiration of any waiting period under the Hart-Scott-Rodino Act, making all material filings and obtaining all material approvals;
- . absence of any order, decree or injunction to prevent the transactions contemplated by the merger agreement, or any pending governmental action, proceeding or investigation to enjoin, delay or restrict the transaction;
- . effectiveness of the registration statement relating to the merger;
- . receipt of legal opinions as to certain corporate, partnership and tax matters;
- . approvals of the Star Gas Partners senior subordinated units and common units for listing on the New York Stock Exchange, subject to official notice of issuance;

- . as to Star Gas Partners, no withdrawal of the fairness opinion of A.G. Edwards; as to Petro, no withdrawal of the fairness opinion of Dain Rauscher Wessels;
- . completion of the equity offering and the debt offering;
- . meeting certain conditions as to refinancing of debt, cash balances and working capital;
- . no more than 10% of shares of Petro common stock is held by dissenting Petro common stockholders; and
- . Petro's entering into a working capital credit facility of not less than \$30 million satisfactory to the special committee.

#### Amendment and Waiver

The merger agreement provides that prior to the closing, any provision of the merger agreement may be

- (1) waived by the party benefitted by that provision or

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- (2) modified or amended at any time by a written agreement of Petro and Star Gas Partners if approved by the Petro board and the special committee.

The merger agreement also provides that before the submission of the merger agreement for approval at the special meeting, Star Gas Partners may change the method of effecting the combination with Petro, Petro has agreed that the Petro board will approve any amendments to the merger agreement resulting from that action by Star Gas Partners provided that it does not

- (a) alter or change the amount or kind of consideration to be issued to Petro common stockholders in the merger,
- (b) alter the tax treatment of Petro common stockholders as a result of the merger or
- (c) materially impede or delay the merger.

#### Termination

The merger agreement may be terminated, and the merger abandoned, at any time prior to the completion of the transaction, whether before or after approval of the merger by the Star Gas Partners common unitholders or the Petro common stockholders:

- (a) by the mutual consent of Petro and Star Gas Partners;
- (b) by either Petro or Star Gas Partners
  - (i) if the other party materially breaches any of its representations, warranties and covenants and the breach is not cured or curable within the prescribed time;
  - (ii) if approval under the Hart-Scott-Rodino Act is not received or a governmental authority enjoins the merger, provided that the terminating party is not in breach of the merger agreement; or
  - (iii) if approval of either the Petro common stockholders or Star Gas Partners common unitholders is not obtained; and
- (c) by Star Gas Partners, if the Petro Board, or by Petro, if the Star Gas Corporation board withdraws or modifies its approval or recommendation of the merger agreement and its related transactions.

Furthermore, the merger agreement shall be terminated if the merger is not completed on or before April 1, 1999 unless the special committee and Petro elect to extend the termination date.

If the merger agreement is terminated and the merger is abandoned, neither Petro nor Star Gas Partners will have any liability or further obligation to any other party under the merger agreement, except that a party who caused the termination through its wilful breach will still be liable.

#### Expenses

Petro will bear all expenses incurred for the merger agreement and its contemplated transactions.

#### Restrictions on Resales of Senior Subordinated Units by Non-Affiliates and Affiliates

The common units and senior subordinated units issuable to Petro stockholders upon completion of the transaction have been registered under the Securities Act and may be traded freely without restriction by those Petro common stockholders who are not deemed to be "affiliates" of Star Gas Partners or Petro. The term "affiliates" is defined in the rules promulgated under the Securities Act.

Star Gas Partners common units and senior subordinated units received by those Petro stockholders who are deemed to be affiliates of Star Gas Partners or Petro at the time of the securityholder meetings may be resold without registration under the Securities Act only as permitted by Rule 145 or as otherwise permitted under the Securities Act. Star Gas Partners senior subordinated units received by persons who are deemed to be "affiliates" of Star Gas Partners may be sold only in transactions permitted under the provisions of Rule 144 under the Securities Act, or as otherwise permitted under the Securities Act.

Selling Unitholders

The registration statement of which this proxy statement forms a part also covers the reoffering and resale from time to time by the following selling unitholders who may be deemed to be "affiliates" of Petro within the meaning of Rule 145 of the following Star Gas Partners senior subordinated units to be received by the selling unitholders in the transaction. Star Gas Partners will not receive any proceeds from the sale of these units by the selling unitholders. The amounts under the column titled "Number of Senior Subordinated Units" represents the total number of senior subordinated units owned by each selling unitholder and the maximum number of senior subordinated units that could be sold by each selling unitholder.

Selling Unitholder -----	Number of Senior Subordinated Units -----
Phillip Cohen.....	93,203
Thomas Edelman.....	91,986 (a)
Richard O'Connell.....	168,281
Brentwood Corp. ....	94,400
Gabes S.A. ....	84,884
Minneford Corp. ....	10,069
Fernando Montero.....	4,149
M.M. Warburg & Co. ....	3,740
Barcel Corp. ....	88,935
Hubertus Langen.....	87,069
Tortosa GmbH.....	35,123
Paul Biddelman.....	280
United Capital Corp. ....	10,582

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(a) Includes 8,936 senior subordinated units owned by Mr. Edelman's wife and trusts for the benefit of his minor children.

Plan of Distribution for the Resale Units

The selling unitholders may from time to time sell all or a portion of their Star Gas Partners senior subordinated units in transactions on the New York Stock Exchange, in the over-the-counter market, in negotiated transactions, under Rule 144 or otherwise, at prices then prevailing or related to the then current market price or at negotiated prices. The Star Gas Partners senior subordinated units may be sold directly or through brokers or dealers or in a distribution by one or more underwriters on a firm commitment or best efforts basis. The methods by which the senior subordinated units may be sold include:

- (1) a block trade in which the broker dealer or dealer engaged will attempt to sell the senior subordinated units as agent but may position and resell a portion of the block as principal to facilitate the transaction,
- (2) purchases by a broker or dealer as principal and resales by that broker dealer for its account pursuant to this proxy statement,

- (3) ordinary brokerage transactions and transactions in which the broker solicits purchasers or to or through marketmakers,
- (4) transactions in put or call options or other rights, whether exchange-listed or otherwise, established after the effectiveness of the registration statement of which this proxy statement is a part and
- (5) privately negotiated transactions.

In addition, any of the Star Gas Partners senior subordinated units that qualify for sale under Rule 145 under the Securities Act may be sold in transactions complying with that rule, rather than under this proxy statement.

In the case of the sale of Star Gas Partners senior subordinated units effected to or through broker-dealers, the broker-dealers may receive compensation in the form of discounts, concessions or commissions from the selling unitholders or the purchasers of senior subordinated units sold by or through the broker-dealers, or both. Star Gas Partners is not aware as of the date of this proxy statement of any agreements between any of the selling unitholders and any broker-dealers with respect to the sale of senior subordinated units. The selling unitholders and any broker-dealers or agents participating in the distribution of the Star Gas Partners senior subordinated units may be deemed to be "underwriters" within the meaning of the Securities Act. In addition, any commissions received by the broker-dealers or agents and profits on any resale of senior subordinated units may be deemed to be underwriting commissions under the Securities Act. The commissions received by a broker-dealer or agent may be in excess of customary compensation. Star Gas Partners will receive no part of the proceeds from the sale of any of the shares of the senior subordinated units by the selling unitholders.

Star Gas Partners will pay all costs and expenses incurred for the registration under the Securities Act of senior subordinated units offered by the selling unitholders, including without limitation all

.registration and filing fees,

.listing fees,

.printing expenses and

.fees and disbursements of counsel and accountants for Star Gas Partners.

Each selling unitholder will pay all brokerage fees and commissions, if any, incurred in the sale of senior subordinated units owned by him. In addition, Star Gas Partners has agreed to indemnify the selling unitholders against certain liabilities, including liabilities under the Securities Act.

#### Accounting Treatment of the Transaction

The parties anticipate that the transaction will be accounted for as a purchase for accounting purposes. See "Unaudited Pro Forma Condensed Consolidated Financial Information."

#### Regulatory Matters Associated with the Transaction

No filing with, or approval of any federal or state governmental entity is required for the transaction, except for:

- (a) the filing of notice of the proposed transaction with the United States Department of Justice and the Federal Trade Commission under the Hart-Scott-Rodino Antitrust Improvements Act, and the lapse of the relevant waiting period prescribed under them;
- (b) registration under the Securities Act of the Star Gas Partners senior subordinated units and the common units to be issued in the transaction and the Star Gas Partners common units to be offered in the equity offering;
- (c) notifications required to be given by Petro to state and county authorities under provisions of certain licenses and permits; and
- (d) tax filings.

## MANAGEMENT OF STAR GAS PARTNERS AFTER THE TRANSACTION

## General Partner

Since Star Gas Corporation is a wholly-owned subsidiary of Petro and will become an indirect subsidiary of Star Gas Partners in the transaction, it will no longer be able to serve as the general partner. At the completion of the transaction, the general partner of Star Gas Partners and Star Gas Propane will be Star Gas LLC. The membership interests in Star Gas LLC are owned by Irik P. Sevin, Audrey L. Sevin, Hanseatic Corp. and Hanseatic Americas LDC. The officers of Star Gas LLC will be:

- . Irik P. Sevin, Chairman of the Board and Chief Executive;
- . Joseph Cavanaugh, Executive Vice President--Propane and Member of the Office of President;
- . William G. Powers, Jr., Executive Vice President--Heating Oil and Member of the Office of President;
- . George Leibowitz, Treasurer;
- . Richard F. Ambury, Vice President;
- . James Bottiglieri, Vice President; and
- . Audrey L. Sevin, Secretary.

The general partner manages and operates the activities of Star Gas Partners. Star Gas Partners unitholders do not directly or indirectly participate in the management or operation of Star Gas Partners. The general partner owes a fiduciary duty to the Star Gas Partners unitholders. Despite any limitation on obligations or duties, the general partner is liable, as the general partner of Star Gas Partners, for all debts of Star Gas Partners, to the extent not paid by Star Gas Partners, except to the extent that indebtedness or other obligations incurred by Star Gas Partners are made specifically non-recourse to the general partner. In addition, if Star Gas Propane defaults under the First Mortgage Notes or the bank credit facilities, the general partner will be liable for any deficiency remaining after foreclosure on Star Gas Propane's assets.

## Board of Directors of Star Gas LLC

At the completion of the transaction, it is expected that the Star Gas LLC board will consist of the following persons, all of whom currently serve as directors of Star Gas Corporation: Irik P. Sevin, who is Chairman of the Board, Audrey L. Sevin, William G. Powers, Jr., Thomas J. Edelman, Paul Biddelman, Wolfgang Traber, and William P. Nicoletti. At her request, one of the current directors of Star Gas Corporation will withdraw as a director upon completion of the transaction as a result of additional duties associated with a new job. That director will be replaced by a director selected by the Star Gas LLC board, and the new director will not be an officer or employee of Star Gas LLC or any of its affiliates.

William P. Nicoletti and an independent director to be selected by the Star Gas LLC board, neither of whom are officers or employees of any affiliates of the general partner, will serve on the audit committee of the Star Gas LLC board. The audit committee has the authority to review specific matters that the general partner believes present a conflict of interest. The audit committee will

determine if the resolution of the conflict proposed by the general partner is fair and reasonable to Star Gas Partners. Any matters approved by the audit committee will be:

- .conclusively deemed to be fair and reasonable to Star Gas Partners,
- .approved by all partners of Star Gas Partners and

. not a breach by the general partner of any duties it may owe Star Gas Partners or the Star Gas Partners unitholders.

In addition, the audit committee:

.reviews external financial reporting of Star Gas Partners,  
.recommends engagement of Star Gas Partners' independent accountants and  
. reviews Star Gas Partners' procedure for internal auditing and the adequacy of Star Gas Partners' internal accounting controls.

In these additional matters, the audit committee may act on its own initiative to question the general partner and, absent the delegation of specific authority by the entire board of directors, its recommendations will be advisory.

Officers and Employees of the Star Gas Propane and Petro

Star Gas Propane. At the completion of the transaction, the officers and employees of Star Gas Corporation who currently manage the operations and business of Star Gas Partners will become officers and employees of Star Gas Propane.

We expect that the following persons who currently serve as Star Gas Corporation's executive officers will serve as executive officers of Star Gas Propane following the completion of the transaction:

. Irik P. Sevin, Chairman of the Board;  
. Joseph P. Cavanaugh, President and Chief Executive Officer;  
. David R. Eastin, Vice President-Operations;  
. Richard F. Ambury, Vice President-Finance; and  
. Audrey L. Sevin, Secretary.

Information relating to executive compensation, various benefit plans, including unit option plans, voting securities and their principal holders, certain relationships and related transactions and other related matters as to Star Gas Partners and Star Gas Corporation is described in Star Gas Partners' Annual Report on Form 10-K for the fiscal year ended September 30, 1998, and is incorporated by reference in this proxy statement. Securityholders of Star Gas Partners or Petro desiring copies of these documents may contact Star Gas Partners at its address or telephone number indicated under "Where You Can Find More Information."

Petro. At the completion of the transaction the officers and employees of Petro will continue to be employed by Petro.

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We expect that the following persons who currently serve as Petro's executive officers will continue to serve as executive officers of Petro following the completion of the transaction:

. Irik P. Sevin, Chairman of the Board and Chief Executive Officer;  
. William G. Powers, Jr., President;  
. C. Justin McCarthy, Senior Vice President-Operations;  
. George Leibowitz, Treasurer;  
. James J. Bottiglieri, Controller;  
. Matthew J. Ryan, Vice President-Supply;  
. Angelo Catania, Vice President and General Manager-Mid Atlantic Region;  
. John Ryan, Vice-President-General Manager-New York Metro Region;

. Peter B. Terenzio, Jr., Vice President-Human Resources; and

. Audrey L. Sevin, Secretary.

Information relating to executive compensation, various benefit plans; (including stock option plans, voting securities and their principal holders, certain relationships and related transactions and other related matters as to Petro is described in Petro's Annual Report on Form 10-K for the year ended December 31, 1997, and is incorporated by reference in this proxy statement. Securityholders of Star Gas Partners or Petro desiring copies of these documents may contact Petro at its address or telephone number indicated under "Where You Can Find More Information."

#### Reimbursement of Expenses of the General Partner

The general partner does not receive any management fee or other compensation for its management of Star Gas Partners. The general partner is reimbursed at cost for all expenses incurred on behalf of Star Gas Partners, including the costs of compensation described below that are properly allocable to Star Gas Partners. The amended and restated partnership agreement provides that the general partner shall determine the expenses that are allocable to Star Gas Partners in any reasonable manner determined by the general partner in its sole discretion.

The general partner will be entitled to distributions on its general partner units and will be entitled to incentive distributions on those units, as described under "Cash Distribution Policy."

#### BENEFICIAL OWNERSHIP OF PRINCIPAL UNITHOLDERS AND MANAGEMENT

The following table sets forth the beneficial ownership as of the record date of Star Gas Partners common units, senior subordinated units, junior subordinated units and general partner units after giving effect to the transaction by:

- (1) Star Gas LLC and certain beneficial owners and all of the directors of Star Gas LLC,
- (2) each of the named executive officers of Star Gas Corporation and Petro, and
- (3) all directors and executive officers of Star Gas Corporation and Petro as a group.

The address of each of these persons is c/o Star Gas Partners, L.P. at 2187 Atlantic Street, Stamford, CT 06912-0011. The asterisk in the percentage column refers to a percentage less than one percent.

Name	Common Units		Senior Subordinated Units		Junior Subordinated Units		General Partner Interests/Units	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Star Gas LLC.....	--	--%	--	--%	--	--%	323,082	100%
Irik P. Sevin.....	--	--	--	--	68,035	15.8	323,082 (c)	100
Audrey L. Sevin.....	--	--	--	--	192,572	44.7	323,082 (c)	100
Wolfgang Traber.....	10,400 (a)	*	1,062	*	169,788 (b)	39.5	323,082 (c)	100
Paul Biddelman.....	--	--	282	*	169,788 (b)	39.5	323,082 (c)	100
Thomas Edelman.....	--	--	91,986 (d)	3.7	--	--	--	--
Richard F. Ambury.....	625	*	39	*	--	--	--	--
George Leibowitz.....	--	--	--	*	--	--	--	--
C. Justin McCarthy.....	--	--	--	--	--	--	--	--
Angelo Catania.....	--	--	294	*	--	--	--	--
David Eastin.....	--	--	--	--	--	--	--	--
Joseph G. Cavanaugh.....	--	--	58	*	--	--	--	--
William G. Powers.....	--	--	--	--	--	--	--	--
All officers and directors and Star Gas LLC as a group (13 persons).....	11,025	*	186,922	7.5	--	100.0	323,082	100.0

(a) Includes 10,000 common units owned by Mr. Traber's wife and 400 common

units owned by Mr. Traber's daughter as to which he may be deemed to share beneficial ownership.

- (b) Includes 169,788 junior subordinated units held by Hanseatic Americas LDC, a Bahamian limited duration company. The sole managing member of Hanseatic Americas is Hansabel Partners, LLC, a Delaware limited liability company. The sole managing member of Hansabel Partners is Hanseatic Corporation, a New York corporation. Messrs. Traber and Biddelman are executive officers of Hanseatic Corporation, and Mr. Traber holds in excess of a majority of the shares of capital stock of Hanseatic Corporation.
- (c) Assumes each member of Star Gas LLC and Messrs. Traber and Biddelman through their positions with the Hanseatic companies may be deemed to beneficially own all of Star Gas LLC's general partner units. However, they disclaim beneficial ownership of these units.
- (d) Includes 8,936 senior subordinated units owned by Mr. Edelman's wife and trusts for the benefit of his minor children.

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#### AMENDMENTS TO THE PARTNERSHIP AGREEMENTS

The following is a complete summary of the material amendments to the current Star Gas Partners partnership agreement and Star Gas Propane partnership agreement to be voted upon by the Star Gas Partners common unitholders. The full text of the proposed Star Gas Partners amended and restated partnership agreement is attached as Annex C. Annex C shows the portions of the existing Star Gas Partners partnership agreement that will be deleted or changed if the transaction is completed. References in this section to unitholders are to Star Gas Partners unitholders and references to units are to Star Gas Partners units.

#### Introduction; Vote Required by Unitholders in order to Amend the Partnership Agreements

Star Gas Corporation, the current general partner, proposes the adoption of the amendments described below to the Star Gas Partners partnership agreement and the Star Gas Propane partnership agreement. This amendment proposal must receive the approval of the holders of a unit majority. Under the current partnership agreement a unit majority means, during the subordination period, at least a majority of the common units outstanding on the record date, other than common units owned by Star Gas Corporation or any affiliate. The enclosed proxy affords unitholders an opportunity to separately vote for or against the amendment proposal by marking the appropriate box on their proxy card. However, the transaction will not be effected unless the amendment proposal is adopted.

#### Summary of Amendments to the Partnership Agreement

**Increase of Minimum Quarterly Distribution.** The amendment proposal will increase the minimum quarterly distribution from \$0.55 to \$0.575 per quarter, which is equal to an annual increase from \$2.20 to \$2.30. No changes will be made to the target distribution levels.

**Extension of the Subordination Period.** The amendment proposal will extend the earliest date on which the subordination period can expire from January 1, 2001 to October 1, 2002. Under the current partnership agreement, the subordination period will end upon the removal of the general partner by the requisite vote by limited partners under circumstances where cause does not exist. The amendment proposal contains a similar provision but also provides that if the general partner is removed during the subordination period

- . within 12 months after a six-quarter period in which the minimum quarterly distribution was not made on the common units for more than one of those quarters, excluding, for this purpose, the payment of any common unit arrearages, and
- . the first quarter in that six-quarter period that the minimum quarterly distribution on the common units is not made occurs after March 31, 2001,

then the subordination period will not end. If the general partner is removed and the subordination period does not end,

- . the junior subordinated units shall convert into senior subordinated units on a one-for-one basis and
- . the distribution rights on the general partner units with respect to the



minimum quarterly distribution, and to an extent for liquidating distributions, will rank pari passu with the senior subordinated units.

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Issuance of Senior Subordinated Units. The amendment proposal will authorize the issuance of senior subordinated units. The senior subordinated units will have distribution rights that are subordinated to all present and future common units for the minimum quarterly distribution and arrearages, and, to an extent, for liquidating distributions. The senior subordinated units will be senior to all present and future junior subordinated units and general partner units for the minimum quarterly distribution and to an extent for liquidating distributions. Upon expiration of the subordination period, all outstanding senior subordinated units will convert into Class B common units on a one-for-one basis. Each outstanding common unit will be redesignated as a Class A common unit upon expiration of the subordination period. The only difference between the Class A common units and the Class B common units is that the Class B common units will have the right to receive incentive distributions and the right to receive additional senior subordinated units if Petro achieves specified financial goals. See "Cash Distribution Policy--Distributions of Available Cash from Operating Surplus During the Subordination Period."

Issuance of Junior Subordinated Units. The amendment proposal will authorize the issuance of junior subordinated units. The junior subordinated units will have distribution rights that are subordinated to all present and future common units and senior subordinated units. In addition, the junior subordinated units will rank pari passu with all present and future general partner units for the minimum quarterly distribution and, to an extent, for liquidating distributions. Upon expiration of the subordination period, all outstanding junior subordinated units will convert into Class B common units on a one-for-one basis. The existing subordinated units held by Star Gas Corporation will be cancelled upon completion of the transaction. See "Cash Distribution Policy--Distributions of Available Cash from Operating Surplus During the Subordination Period."

Subordination of General Partner Interests. The amendment proposal will redesignate the general partner interests in Star Gas Partners as general partner units. These general partner units will rank pari passu with the junior subordinated units for the minimum quarterly distribution and, to an extent, for liquidating distributions. Currently, the general partner is entitled to 2% of all payments of the minimum quarterly distribution made on the common units and the existing subordinated units. The general partner units shall not convert into any class of common units upon expiration of the subordination period. However, at that time, they shall no longer be subordinated and shall rank pari passu with the Class A and Class B common units. See "Cash Distribution Policy--Distributions of Available Cash from Operating Surplus During the Subordination Period" and "--Distributions of Available Cash from Operating Surplus After the Subordination Period."

Limitations and Prohibitions on Distributions on Subordinated Interests. The amendment proposal will limit and, in some cases, prohibit distributions during the subordination period on the senior subordinated units, junior subordinated units and general partner units in the following manner:

- . No distributions will be paid on the senior subordinated units, junior subordinated units and general partner units for any quarter during the remainder of Star Gas Partners' fiscal year 1999, which ends on September 30, 1999. There is no prohibition or limitation on distributions to common units during this time period.

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- . Beginning with the first quarter of Star Gas Partners' fiscal year 2000, which begins on October 1, 1999, no distributions will be made on the senior subordinated units, junior subordinated units or general partner units, unless the aggregate amount of distributions on all units for all quarters, beginning with the first quarter of Star Gas Partners fiscal year 2000, shall be equal to or less than the total Operating Surplus generated by Star Gas Partners since October 1, 1999. Solely for purposes of this limitation, Operating Surplus does not include Star Gas Partners cash balance on the date it commenced operations, plus approximately \$20 million.

The amendment proposal does not prohibit the holders of senior subordinated units, junior subordinated units or general partner units from receiving distributions from Capital Surplus in a partial liquidation during the subordination period.

Issuance of Additional Senior Subordinated Units. The amendment proposal provides for the issuance of up to 909,000 additional senior subordinated units if Petro meets the financial tests in the amended and restated partnership agreement. Specifically, if the dollar amount of Petro Adjusted Operating Surplus per Petro Unit equals or exceeds \$2.90 for any four-quarter period that occurs between the first and fifth anniversaries of the transaction, Star Gas Partners will issue 303,000 senior subordinated units to the holders of the senior subordinated units, junior subordinated units and general partner units of record for the final quarter of that four-quarter period. After the end of the subordination period, Star Gas Partners would instead issue 303,000 Class B common units to the holders of the Class B common units and the general partner units. In any case, Star Gas Partners may not issue more than 303,000 senior subordinated units or Class B common units in any 365-day period. Furthermore, Star Gas Partners may not issue more than 909,000 senior subordinated units or Class B common units pursuant to this provision in the aggregate. See "Cash Distribution Policy--Issuance of Additional Senior Subordinated Units."

Reallocation of Incentive Distribution Rights. The amendment proposal will reallocate the right to receive incentive distributions currently held by the general partner among the senior subordinated units, junior subordinated units and general partner units, pro rata. As a result, in some quarters the holders of senior subordinated units, junior subordinated units and general partner units may receive greater distributions than the holders of common units. See "Cash Distribution Policy--Incentive Distributions During the Subordination Period" and "--Incentive Distributions After the Subordination Period."

Deletion of the Provision Regarding the Net Worth of the General Partner. The amendment proposal will delete the prohibition against the general partner from taking any action that would cause its net worth, independent of its interest in Star Gas Partners and Star Gas Propane, to be less than \$6.0 million. The primary purpose of the net worth requirement was to ensure that Star Gas Partners would be treated as a partnership and not as an association taxable as a corporation for federal income tax purposes. Counsel has advised Star Gas Partners that the failure of the general partner to maintain a specific net worth will not result in Star Gas Partners being treated as an association taxable as a corporation for federal income tax purposes under current regulations under the Code.

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Issuance of Additional Common Units. The partnership agreement currently authorizes Star Gas Partners to issue 1,300,000 common units or units ranking on a parity with common units without the approval of the common unitholders. This number does not include common units issued for

- (1) capital improvements or acquisitions that are accretive on a per unit basis,
- (2) the repayment of up to \$20 million of indebtedness or
- (3) the conversion of the existing subordinated units.

The amendment proposal will increase the number of common units or units ranking on a parity with common units that Star Gas Partners may issue without unitholder approval to 2,500,000. This number does not include:

- (a) common units issued for the purposes described in (1) and (2) above,
- (b) Class B common units issued in the conversion of senior subordinated units and junior subordinated units and
- (c) the common units issued in the transaction, including the equity offering.

Approval of this amendment satisfies the requirement under the current partnership agreement that the holders of a unit majority approve the issuance of common units in the equity offering.

Definition of Unit Majority. Under the current partnership agreement, some transactions require the approval of a unit majority, which is defined to mean the approval of a majority of the common units, other than common units held by the general partner or any of its affiliates. The amendment proposal will provide that the senior subordinated units and junior subordinated units have a vote on some matters by restating the definition of "unit majority" as follows:

"Unit Majority" means, during the subordination period, at least (1) a majority of the outstanding common units voting as a class and (2) a majority of the outstanding senior subordinated units and junior subordinated units voting as a single class, in each case excluding units owned by the general partner or any affiliate, and, after the subordination period, at least a majority of the outstanding common units.

Proportionate Increase in Operating Surplus Basket. The amendment proposal will increase the basket of \$6 million described in the definition of "Operating Surplus" in proportion to the additional number of common units to be issued in the equity offering. In lieu of \$6 million, the amount shall be a number equal to the product of

(1) \$6 million and

(2) a fraction,

- (x) the numerator of which is the number of outstanding common units at the completion of the transaction, assuming the simultaneous closing of the equity offering, and
- (y) the denominator of which is the number of outstanding common units immediately prior to the completion of the transaction.

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Assuming the issuance of approximately 8.9 million common units in the equity offering, the basket will be increased to approximately \$20 million. This amendment will keep the dollar amount of the basket per common unit the same as it was immediately before the transaction.

Deletion of Provisions Relating to Early Conversion of Subordinated Units. The amendment proposal will delete those provisions of the current partnership agreement that provide that a portion of the subordinated units will convert into common units prior to the expiration of the subordination period if certain levels of minimum quarterly distribution are both earned and distributed. Based upon Star Gas Partners' inability to satisfy tests based on distributions and earnings, the early conversion of subordinated units is no longer feasible.

General Partner Capital Contribution Requirement. The amendment proposal relieves the general partner of its obligation to maintain a fixed percentage general partner interest in Star Gas Partners. The general partner will, however, retain its preemptive right to maintain its existing ownership interest. If the general partner does not make a contribution of capital upon the issuance of additional units, its claim on distributions will be proportionately reduced.

Additional Capital Contribution Obligation of the General Partner. The amendment proposal will delete the additional capital contribution obligation of the general partner in order for Star Gas Partners to pay the minimum quarterly distribution on the common units. This obligation had previously expired because Star Gas Partners had satisfied tests in the current partnership agreement and its deletion will therefore have no effect on unitholders.

Partnership's Right to Acquire Units. The amendment proposal will provide that if at any time after the expiration of the subordination period and the earlier to occur of

(1) the fifth anniversary of the completion of the transaction or

(2) the issuance of 909,000 senior subordinated units and Class B common units in the aggregate,

Star Gas Partners acquires, in a twelve-month period through purchase or

exchange, 66 2/3% or more of the total Class B common units, Star Gas Partners may purchase all, but not less than all, of the remaining Class B common units then outstanding during the following twelve-month period.

Registration Rights of Certain Affiliates of Petro. The amendment proposal will provide that Star Gas Partners must register for resale under the Securities Act the senior subordinated units issued to affiliates of Petro in the transaction.

#### Summary of Amendments to the Star Gas Propane Partnership Agreement

Under the current Star Gas Partners partnership agreement, the general partner cannot consent to any amendment to the Star Gas Propane partnership agreement that would have a material adverse effect on Star Gas Partners as a partner of Star Gas Propane. Additionally the general partner cannot cause Star Gas Partners to elect a successor general partner of Star Gas Propane without the approval of the holders of a unit majority in Star Gas Partners.

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Star Gas Corporation consents to and proposes that the limited partners approve:

- (1) the election of Star Gas LLC as successor general partner,
- (2) the deletion of the allocation of depreciation to the general partner,
- (3) the deletion of the prohibition against the general partner from taking any action that would cause its net worth to be less than \$6 million and
- (4) any other amendments to the Star Gas Propane partnership agreement that the general partner deems necessary to complete the transaction.

#### Conforming Changes

Additional changes will be required to conform the current Star Gas Partners partnership agreement and the current Star Gas Propane partnership agreement to the amendments and to facilitate the transaction. It is the good faith opinion of Star Gas Corporation that the conforming changes do not adversely affect the unitholders in any material respect. Thus, under the current partnership agreement, Star Gas Corporation may make any or all conforming changes without the consent of the unitholders.

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#### THE AMENDED AND RESTATED PARTNERSHIP AGREEMENT

If the transaction is completed, all holders of Star Gas Partners' units will be bound by the provisions of the Star Gas Partners amended and restated partnership agreement. The following is a complete summary of the material provisions of the amended and restated partnership agreement. For a more complete understanding, see the proposed amended and restated partnership agreement attached as Annex C of this proxy statement. References in this section to unitholders are to Star Gas Partners unitholders and references to common, senior subordinated, junior subordinated, and general partner units are to Star Gas Partners units.

The following provisions of the amended and restated partnership agreement are summarized elsewhere in this proxy statement:

- . With regard to various transactions and relationships of Star Gas Partners with the general partner and its affiliates, see "Conflicts of Interest of Star Gas Partners."
- . With regard to the management of Star Gas Partners, see "Management of Star Gas Partners After the Transaction." With regard to the transfer of units, see "Description of the Units."
- . With regard to distributions of Available Cash, see "Cash Distribution Policy."

. With regard to allocations of taxable income and taxable loss, see "Federal Income Tax Considerations."

#### Organization and Duration

Star Gas Partners and Star Gas Propane were organized in 1995 as Delaware limited partnerships. Star Gas Partners will dissolve on December 31, 2085, unless dissolved sooner under the terms of the amended and restated partnership agreement.

#### Purpose

The purpose of Star Gas Partners is limited to serving as the limited partner of Star Gas Propane and engaging in other activities approved by the general partner. The general partner is authorized in general to perform all acts deemed necessary to carry out those purposes and to conduct the business of Star Gas Partners. The general partner has the ability to cause Star Gas Partners and Star Gas Propane to engage in activities that may pose a greater risk to investors than the propane and home heating oil marketing business.

#### Power of Attorney

Each limited partner, and each person who acquires a unit from a unitholder and executes and delivers a transfer application, grants to the general partner and, if appointed, a liquidator, a power of attorney to, among other things, execute and file documents required for the qualification, continuance or dissolution of Star Gas Partners. The power of attorney also grants the authority for the amendment of, and to make consents and waivers under, the amended and restated partnership agreement.

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#### Restrictions on Authority of the General Partner Regarding Extraordinary Transactions

The authority of the general partner is sometimes limited under the amended and restated partnership agreement. The general partner is prohibited, without the prior approval of a unit majority, from

- . selling, exchanging or otherwise disposing of all or substantially all of Star Gas Partners' assets in a single transaction or a series of related transactions, including by way of merger, consolidation or other combination or
- . approving on behalf of Star Gas Partners the sale, exchange or other disposition of all or substantially all of the assets of Star Gas Propane.

However, Star Gas Partners may mortgage, pledge, hypothecate or grant a security interest in all or substantially all of Star Gas Partners' assets without any unitholder approval. Star Gas Partners may also sell all or substantially all of its assets in a foreclosure or other realization upon these encumbrances without Star Gas Partners unitholder approval.

#### Lack of Dissenters' Rights

The unitholders are not entitled to dissenters' rights of appraisal under the current partnership agreement, the amended and restated partnership agreement or applicable Delaware law if a merger or consolidation of Star Gas Partners or the sale, exchange or other disposition of substantially all of Star Gas Partners' assets or any other event should occur.

#### Withdrawal or Removal of the General Partner; Approval of Successor General Partner

Except in the limited circumstances described below, the general partner has agreed not to voluntarily withdraw as general partner of Star Gas Partners and Star Gas Propane prior to December 31, 2005 without

- . obtaining the approval of a unit majority and
- . furnishing an opinion of counsel that the withdrawal and the selection of a successor general partner will not result in the loss of the limited liability of the limited partners of Star Gas Partners or cause Star Gas

Partners to be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes.

On or after December 31, 2005, the general partner may withdraw as general partner by giving 90 days written notice without obtaining approval from the unitholders. Withdrawal after this date will not constitute a violation of the amended and restated partnership agreement.

Notwithstanding the foregoing, the general partner may withdraw without unitholder approval upon 90 days notice to the limited partners if more than 50% of the outstanding units are held or controlled by one person and its affiliates, other than the general partner and its affiliates. In addition, the amended and restated partnership agreement permits the general partner in limited instances to sell all of its general partner units. See "--Restriction on Transfer of General Partner Interest."

Upon the withdrawal of the general partner under any circumstances, other than as a result of a transfer by the general partner of all or a part of its general partner units, the holders of a majority of

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the outstanding units may select a successor general partner. If the successor is not elected, or is elected but an opinion of counsel regarding the tax matters discussed above cannot be obtained, Star Gas Partners will be dissolved, wound up and liquidated, unless within 180 days after that withdrawal, a unit majority agrees in writing to continue the business of Star Gas Partners and to the appointment of a successor general partner. See "--Description of Termination and Dissolution of Star Gas Partners."

The general partner may not be removed unless:

- . removal is approved by the vote of the holders of not less than 66 2/3% of the outstanding units owned by limited partners voting together as a single class, other than those of the general partner and its affiliates and
- . Star Gas Partners receives an opinion of counsel that the removal will not result in a loss of limited liability to the limited partners or cause Star Gas Partners to be treated as a corporation or otherwise taxed as an entity for federal income tax purposes.

Removal is also subject to the approval of a successor general partner by the vote of the holders of a unit majority.

If the general partner is removed as general partner other than for cause, the subordination period will end, any then-existing arrearages on the common units will be terminated, any senior subordinated units and junior subordinated units held by the general partner will immediately convert into Class B common units and the general partner units will no longer be subordinated; provided, however, that if the general partner is removed during the subordination period within 12 months after a six-quarter period in which the minimum quarterly distribution has not been made on the common units for more than one of those quarters, excluding for this purpose the payment of any common unit arrearages, and the first quarter in that six-quarter period that the minimum quarterly distribution on the common units is not made occurs after March 31, 2001, then the subordination period will not end. If the general partner is removed and the subordination period does not end, the junior subordinated units shall convert into senior subordinated units on a one-for-one basis and the distribution rights on the general partner units with respect to the minimum quarterly distribution and liquidation will rank equally with the senior subordinated units.

Removal or withdrawal of the general partner of Star Gas Partners also constitutes removal or withdrawal, as the case may be, of the general partner as general partner of Star Gas Propane.

In the event the withdrawal of the general partner violates the amended and restated partnership agreement or removal of the general partner by the limited partners under circumstances where cause exists, a successor general partner will have the option to purchase from the departing general partner the general partner units in Star Gas Partners and the general partner interests in Star Gas Propane for a cash payment equal to the fair market value. Under all other circumstances where the general partner withdraws or is removed by the limited partners, the departing general partner will have the right to require the successor general partner to purchase from the

departing general partner the general partner units in Star Gas Partners and the general partner interest in Star Gas Propane for that amount. In each case, the fair market value will be determined by agreement between the departing general partner and the successor general partner, or if no agreement is reached, by an independent investment banking firm or other independent experts selected by the departing general partner and

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the successor general partner. If no expert can be agreed upon, the fair market value will be determined by an expert chosen by agreement of the experts selected by each of them. In addition, Star Gas Partners will be required to reimburse the departing general partner for all amounts due the departing general partner, including, without limitation, all employee-related liabilities such as severance liabilities, incurred in the termination of the employees employed by the departing general partner for the benefit of Star Gas Partners.

If the above-described option is not exercised by either the departing general partner or the successor general partner, as applicable, the departing general partner's general partner units in Star Gas Partners and the general partner interest in Star Gas Propane will be converted into common units equal to the fair market value of the interest as determined by an investment banking firm or other independent expert selected in the manner described in the preceding paragraph. If any Class B common units are outstanding, the departing general partner's general partner units in Star Gas Partners and the general partner interest in Star Gas Propane will be converted into Class A common units.

#### Restriction on Transfer of General Partner Interest

Except for the following two instances, the general partner may not transfer any or all of the general partner units to another person or entity prior to December 31, 2005, without the approval of holders of a unit majority.

- . A transfer by the general partner of all, but not less than all, of its general partner units to an affiliate.
- . The merger or consolidation of the general partner with or into another entity.

In each case the transferee of the general partner units must:

- . assume the rights and duties of the general partner,
- . agree to be bound by the provisions of the amended and restated partnership agreement,
- . furnish an opinion of counsel that the transfer will not result in a loss of limited liability to the limited partners or cause Star Gas Partners to be treated as an entity for federal income tax purposes and
- . agree to purchase the general partner's partnership interest in Star Gas Propane.

At any time, the members of Star Gas LLC may sell or otherwise transfer their membership interests in Star Gas LLC to a third party without the approval of the unitholders.

#### Reimbursement for Services of the General Partner

The general partner is not entitled to receive any compensation for its services as general partner of Star Gas Partners. The general partner is, however, entitled to be reimbursed on a monthly basis, or such other basis as the general partner may reasonably determine for:

- . all direct and indirect expenses it incurs or payments it makes on behalf of Star Gas Partners, and
- . all other necessary or appropriate expenses allocable to Star Gas Partners or otherwise reasonably incurred by the general partner for the operation of Star Gas Partners' business, including expenses allocated to the general partner by its affiliates.

The general partner, in its sole discretion, shall determine the expenses that are allocable to Star Gas Partners in any reasonable manner.

#### Rights and Status as Limited Partner or Assignee Upon Transfer of Interest

Except as described below under "--Potential Loss of Limited Liability by Unitholders," the units will be fully paid, and unitholders will not be required to make additional contributions to Star Gas Partners.

A person receiving a common unit or senior subordinated unit subsequent to executing and delivering a transfer application, but before admission as a substituted limited partner or additional limited partner has the right to share in allocations and distributions. The general partner will vote and exercise other powers attributable to common units or senior subordinated unit owned by that person before admission as a substitute limited partner or additional limited partner at the written direction of that person. See "--Meetings of Limited Partners and Voting Rights." Persons who do not execute and deliver a transfer application will be treated neither as assignees nor as record holders of common units or senior subordinated units and will not receive:

- . cash distributions,
- . federal income tax allocations or
- . reports furnished to unitholders.

See "Description of the Units--Obligations and Procedures for the Transfer of Units."

#### Limitations on the Rights of Non-citizen Assignees and Redemption Rights of Star Gas Partners

If, because of the nationality, citizenship or other related status of any limited partner or assignee, Star Gas Partners is or becomes subject to federal, state or local laws or regulations that, in the reasonable determination of the general partner, create a substantial risk of cancellation or forfeiture of any property in which Star Gas Partners has an interest, Star Gas Partners may redeem the units held by that limited partner or assignee at their Current Market Price. In order to avoid any cancellation or forfeiture, the general partner may require each limited partner or assignee to furnish information about his nationality, citizenship, residency or related status. If a limited partner or assignee fails to furnish information about his nationality, citizenship, residency or other related status within 30 days after a request for the information, that person may be treated as a non-citizen assignee. A non-citizen assignee does not have the right to direct the voting of his units and may not receive distributions in kind upon liquidation of Star Gas Partners.

#### Issuance of Additional Securities by Star Gas Partners

Except as discussed below, the general partner is authorized to cause Star Gas Partners to issue an unlimited number of additional limited partner interests and other equity securities of Star Gas Partners for the consideration and on the terms and conditions established in its sole discretion, without the approval of any limited partners.

Except as described in (1) through (4) below, during the subordination period, Star Gas Partners may not issue an aggregate of more than 2,500,000 additional common units or units on a parity with the common units without the prior approval of at least a majority of the outstanding common units, other than those held by the general partner and its affiliates.

(1) Common units in the transaction, including those issued in the equity offering.

(2) If the issuance occurs



- (a) for an acquisition or a capital improvement or
- (b) within 365 days of, and the net proceeds from the issuance are used to repay debt incurred for, an acquisition or a capital improvement;

in each case, where the acquisition or capital improvement involves assets that would have, on a pro forma basis, resulted in an increase in the amount of Adjusted Operating Surplus calculated on a per-unit basis for all outstanding units for each of the four most recently completed quarters.

- (3) If the proceeds from the issuance are used exclusively to repay up to \$20 million of indebtedness of Star Gas Partners, Star Gas Propane or any of its subsidiaries.
- (4) The issuance of Class B common units upon the conversion of the senior subordinated units and junior subordinated units at the end of the subordination period.

In accordance with Delaware law and the provisions of the amended and restated partnership agreement, the general partner, in its sole discretion, may cause Star Gas Partners to issue additional partnership interests that may have special voting rights.

The general partner has the right to purchase units from Star Gas Partners on the same terms that Star Gas Partners issues the units to other persons, whenever necessary for the general partner and its affiliates to maintain the percentage of ownership interest that existed immediately prior to each issuance. Persons other than the general partner do not have preemptive rights to acquire additional common units or other partnership interests.

Additional issues of units, including senior subordinated units and junior subordinated units or other equity securities of Star Gas Partners ranking junior to the common units, may reduce the likelihood and/or amount of, any distributions above the minimum quarterly distribution.

#### Limited Call Right on Outstanding Limited Partner Interests

If at any time:

- (a) not more than 20% of the limited partner interests of any class are held by persons other than the general partner and its affiliates, the general partner will have the right, which it may assign and transfer in whole or in part to any of its affiliates or to Star Gas Partners, to acquire all, but not less than all, of the remaining limited partner interests of that class or
- (b) after the expiration of the subordination period and the earlier to occur of

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- (1) the fifth anniversary of the completion of the transaction or
- (2) the issuance of 909,000 senior subordinated units and Class B common units in the aggregate,

Star Gas Partners acquires, in a twelve-month period, 66 2/3% or more of the total Class B common units, Star Gas Partners shall then have the right, to purchase all, but not less than all, of the remaining Class B common units during the following twelve-month period.

In the case of (a) or (b) above, the limited partners are entitled to at least 10 but not more than 60 days' notice. The purchase price if (a) or (b) above should occur shall be the greater of

- (x) the highest cash price paid by Star Gas Partners, the general partner or any of its affiliates for any limited partner interests of that class purchased within the 90 days preceding the date the notice is first mailed to limited partners and
- (y) the Current Market Price as of the date three days prior to the date

the notice is mailed.

As a consequence of this right to purchase outstanding limited partner interests, a holder may have his limited partner interests purchased from him at a time and/or price that may be undesirable. The tax consequences to a unitholder of the exercise of this call right are the same as a sale by that unitholder of his units in the market. See "Federal Income Tax Considerations--Disposition of Units."

#### Amendment of the Amended and Restated Partnership Agreement

Amendments to the amended and restated partnership agreement may be proposed only by or with the consent of the general partner. In order to adopt a proposed amendment, the general partner is required to seek written approval of the holders of the number of units required to approve the amendment or call a meeting of the limited partners to consider and vote upon the proposed amendment, except as described below.

Prohibited Amendments. No amendment may be made that would:

- (1) enlarge the obligations of any limited partner, without its consent,
- (2) enlarge the obligations of, restrict in any way any action by or rights of, or reduce in any way the amounts distributable, reimbursable or otherwise payable to, the general partner, without its consent, which may be given or withheld in its sole discretion,
- (3) change the term of Star Gas Partners,
- (4) provide that Star Gas Partners is not dissolved upon expiration of its term or
- (5) give any person the right to dissolve Star Gas Partners other than the general partner's right to dissolve Star Gas Partners with the approval of holders of at least a unit majority.

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No Unitholder Approval. The general partner may make amendments without the approval of any limited partner or assignee to reflect:

- (1) a change in the name of Star Gas Partners, the location of the principal place of business of Star Gas Partners, the registered agent or the registered office of Star Gas Partners,
- (2) admission, substitution, withdrawal or removal of partners in accordance with the amended and restated partnership agreement,
- (3) a change that, in the sole discretion of the general partner, is necessary or advisable to qualify or continue the qualification of Star Gas Partners as a partnership in which the limited partners have limited liability or that is necessary or advisable to ensure that Star Gas Partners and Star Gas Propane will not be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes,
- (4) an amendment that is necessary, in the opinion of counsel to Star Gas Partners, to prevent Star Gas Partners or the general partner or its respective directors or officers from being subjected in any manner to the provisions of the Investment Company Act, the Investment Advisors Act, or the "plan asset" regulations adopted under ERISA, whether or not substantially similar to plan asset regulations currently applied or proposed,
- (5) subject to the limitations on the issuance of additional Class A common units, Class B common units or other limited or general partner interests described above, an amendment that in the sole discretion of the general partner is necessary or advisable for the authorization of additional limited or general partner interests,
- (6) any amendment expressly permitted in the amended and restated partnership agreement to be made by the general partner acting alone,

- (7) an amendment effected, necessitated or contemplated by a merger agreement that has been approved pursuant to the terms of the amended and restated partnership agreement,
- (8) any amendment that, in the sole discretion of the general partner, is necessary or advisable for the formation by Star Gas Partners of, or its investment in, any corporation, partnership or other entity as otherwise permitted by the amended and restated partnership agreement,
- (9) a change in the fiscal year and taxable year of Star Gas Partners and
- (10) any other amendments substantially similar to the foregoing.

In addition, the general partner may make amendments without the approval of any limited partner or assignee if the amendments:

- (1) do not adversely affect the limited partners in any material respect,
- (2) are necessary or advisable, in the sole discretion of the general partner, to satisfy any requirements, conditions or guidelines contained in any opinion, directive, ruling or regulation of any federal or state agency or judicial authority or contained in any federal or state statute,
- (3) are necessary or advisable to facilitate the trading of the units or to comply with any rule, regulation, guideline or requirement of any securities exchange on which the units are or

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will be listed for trading, compliance with any of which the general partner deems to be in the best interests of Star Gas Partners and the unitholders or

- (4) are required or contemplated by the amended and restated partnership agreement.

Opinion of Counsel and Unitholder Approval. The general partner will not be required to obtain an opinion of counsel that an amendment will not result in a loss of limited liability to the limited partners or result in Star Gas Partners being treated as an entity for federal income tax purposes if one of the amendments described above under "--No Unitholder Approval" should occur. No other amendments to the amended and restated partnership agreement will become effective without the approval of at least 90% of the units unless Star Gas Partners obtains an opinion of counsel that the amendment will not:

- . affect the limited liability of any limited partner in Star Gas Partners or the limited partner of Star Gas Propane or
- . cause Star Gas Partners to be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes.

Any amendment that materially and adversely affects the rights or preferences of any type or class of outstanding units in relation to other classes of units will require the approval of holders of at least a majority of the outstanding units so affected, excluding, during the subordination period, any units held by the general partner and its affiliates.

#### Meetings of Limited Partners and Voting Rights

Record holders of units on the applicable record date will be entitled to notice of, and to vote at, meetings of limited partners and to act on matters as to which approvals may be solicited. The general partner shall vote units owned by an assignee who is a record holder but who has not yet been admitted as a limited partner at the written direction of the assignee. Absent this direction, those units will not be voted. However, in the case of units held by the general partner on behalf of non-citizen assignees, the general partner shall distribute the votes of these units in the same ratios as the votes of limited partners on other units are cast.

Any action that is required or permitted to be taken by the limited partners may be taken either at a meeting of the limited partners or without a meeting

if consents in writing setting forth the action so taken are signed by holders of that number of limited partner interests necessary to authorize or take action at a meeting. Meetings of the limited partners may be called by the general partner or by limited partners owning at least 20% of the outstanding units of the class for which a meeting is proposed. Limited partners may vote either in person or by proxy at meetings. The holders of a majority of the outstanding units of the class or classes for which a meeting has been called shall constitute a quorum, unless the action requires approval by holders of a greater percentage of those units, in which case the quorum shall be the greater percentage.

Units held in a nominee or street name account will be voted by the broker or other nominee under the instruction of the beneficial owner unless the arrangement between the beneficial owner and his nominee provides otherwise.

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#### Indemnification Obligations of Star Gas Partners

In most circumstances, Star Gas Partners will indemnify the following persons, to the fullest extent permitted by law, from and against all losses, claims, damages or similar events:

- (1) the general partner and its affiliates,
- (2) any departing general partner and its affiliates,
- (3) any person who is or was an officer, director, employee, partner, agent or trustee of the general partner or any departing general partner or any affiliate of the general partner or any departing general partner or
- (4) any person who is or was serving at the request of the general partner or any departing general partner or any affiliate of the general partner or any departing general partner as an officer, director, employee, partner, agent or trustee of another person.

Any indemnification will only be out of the assets of Star Gas Partners. The general partner shall not have any obligation to contribute or loan funds to Star Gas Partners to enable it to effectuate indemnification. Star Gas Partners is authorized to purchase insurance against liabilities asserted against and expenses incurred by those persons for Star Gas Partners' activities, regardless of whether Star Gas Partners would have the power to indemnify that person.

#### Potential Loss of Limited Liability by Unitholders

Assuming that a limited partner does not participate in the control of the business of Star Gas Partners within the meaning of the Delaware Act and that he acts in conformity with the provisions of the amended and restated partnership agreement, his liability will be limited to the amount of capital he is obligated to contribute to Star Gas Partners, plus his share of any undistributed profits and assets. If it were determined that an action by a limited partner constituted "participation in the control" of Star Gas Partners' business for the purposes of the Delaware Act, then a limited partner could be held personally liable for Star Gas Partners' obligations, to the same extent as the general partner, to persons who transact business with Star Gas Partners. In order for a limited partner to be liable for these obligations, the person who transacts business with the limited partner must reasonably believe, based on the limited partner's conduct, that the limited partner is a general partner.

Under the Delaware Act, a limited partnership may not make a distribution to a partner if after the distribution, all liabilities of the partnership, other than liabilities to partners on account of their partnership interests and nonrecourse liabilities, exceed the fair value of the assets of the limited partnership. Under the Delaware Act, a limited partner who receives a distribution and knew at the time that the distribution was in violation of the Delaware Act shall be liable for the amount of the distribution for three years. Under the Delaware Act, an assignee who becomes a substituted limited partner of a limited partnership is liable for the obligations of his assignor to make contributions to the partnership, except the assignee is not obligated

for liabilities unknown to him at the time he became a limited partner and that could not be ascertained from the amended and restated partnership agreement.

Star Gas Propane conducts business in at least 13 states. Maintenance of limited liability may require compliance with legal requirements in those jurisdictions in which Star Gas Propane conducts

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business, including qualifying Star Gas Propane to do business therein. Limitations on the liability of limited partners for the obligations of a limited partnership have not been clearly established in many jurisdictions. Star Gas Partners will operate in the manner as the general partner deems reasonable and necessary or appropriate to preserve the limited liability of unitholders.

#### Obligations of the General Partner to Provide Books and Reports to Limited Partners

The general partner is required to keep appropriate books of the business of Star Gas Partners at the principal offices of Star Gas Partners. The books will be maintained for both tax and financial reporting purposes on an accrual basis. The fiscal year of Star Gas Partners is October 1 to September 30.

As soon as practicable, but in no event later than 120 days after the close of each fiscal year, the general partner will furnish each record holder of units with an annual report containing audited financial statements prepared in accordance with generally accepted accounting principles. As soon as practicable, but in no event later than 90 days after the close of each quarter, except the last quarter of each fiscal year, the general partner will furnish each record holder of units a report containing unaudited financial statements and any other information as may be required by law.

The general partner will use all reasonable efforts to furnish each record holder of a unit with information reasonably required for tax reporting purposes within 90 days after the close of each calendar year in which Star Gas Partners' taxable year ends. This information is expected to be furnished in summary form so that certain complex calculations normally required of partners can be avoided. The general partner's ability to furnish summary information to unitholders will depend on the cooperation of such unitholders in supplying certain information to the general partner. Every unitholder will receive information to assist him in determining his federal and state tax liability and filing his federal and state income tax returns.

#### Limited Partners' Right to Inspect Star Gas Partners Books and Records

A limited partner can, for a purpose reasonably related to a person's interest as a limited partner, upon reasonable demand and at his own expense, be furnished with:

- (1) a current list of the name and last known address of each partner,
- (2) a copy of Star Gas Partners' tax returns,
- (3) information as to the amount of cash and a description and statement of the net agreed value of any other property or services, contributed or to be contributed by each partner and the date on which each became a partner,
- (4) copies of the amended and restated partnership agreement, the certificate of limited partnership, and powers of attorney
- (5) information regarding the status of Star Gas Partners' business and financial condition and
- (6) such other information regarding the affairs of Star Gas Partners as is just and reasonable,

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The general partner may, and intends to, keep the following confidential from the limited partners: (1) trade secrets, (2) other information the

disclosure of which the general partner believes in good faith is not in the best interests of Star Gas Partners or (3) information that is required by law or by agreements with third parties to be kept confidential.

#### Description of Termination and Dissolution of Star Gas Partners

Star Gas Partners will continue until December 31, 2085, unless terminated sooner upon:

- (1) the election of the general partner to dissolve Star Gas Partners, if approved by holders of a unit majority,
- (2) the sale, exchange or other disposition of all or substantially all of the assets and properties of Star Gas Partners and Star Gas Propane,
- (3) the entry of a decree of judicial dissolution of Star Gas Partners or
- (4) the withdrawal or removal of the general partner or any other event that results in its ceasing to be the general partner other than by reason of a transfer of its general partner units or withdrawal or removal following approval and admission of a successor.

Upon a dissolution pursuant to clause (4), the holders of at least a majority of the outstanding units may elect to reconstitute Star Gas Partners and continue its business by forming a new limited partnership. The new general partner would be a person or entity approved by the holders of at least a majority of the outstanding units, subject to receipt by Star Gas Partners of an opinion of counsel that this action will not affect its limited liabilities or result in Star Gas Partners being treated as corporation or an entity for federal income tax purposes.

#### Liquidation of Star Gas Partners and Distribution of Proceeds

Upon the dissolution of Star Gas Partners, unless Star Gas Partners is reconstituted and continued as a new limited partnership, the person authorized to wind up the affairs of Star Gas Partners will liquidate the assets and apply the proceeds as provided in "Cash Distribution Policy--Distributions of Cash upon Liquidation During the Subordination Period" and "--Distributions of Cash upon Liquidation After the Subordination Period."

#### Registration Rights of the General Partner or its Affiliates

Star Gas Partners has agreed:

- (1) to register for resale under the Securities Act any units proposed to be sold by the general partner or its affiliates upon their request if an exemption from the registration requirements is not otherwise available and
- (2) to register for resale under the Securities Act the common units and senior subordinated units issued to affiliates of Petro in the transaction upon their request if an exemption from the registration requirements is not otherwise available.

Star Gas Partners is obligated to pay all expenses incidental to the above registrations, excluding underwriting discounts and commissions.

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#### CONFLICTS OF INTEREST OF STAR GAS PARTNERS

The following discussion of conflicts of interests of Star Gas Partners refers to Star Gas Partners unitholders as unitholders and refers to Star Gas Partners units as units.

#### Conflicts of Interest May Arise as a Result of the Publicly-Traded Limited Partnership Structure

Conflicts of interest have arisen and could arise in the future as a result of relationships between the general partner and its affiliates, on the one hand, and Star Gas Partners or any of the limited partners, on the other hand. The directors and officers of the general partner have fiduciary duties to manage the general partner in a manner beneficial to its members. In general,

the general partner has a fiduciary duty to manage Star Gas Partners in a manner beneficial to Star Gas Partners and the unitholders. The amended and restated partnership agreement contains provisions that allow the general partner to take into account the interests of parties in addition to Star Gas Partners in resolving conflicts of interest. In effect, these provisions limit its fiduciary duty to the unitholders. The amended and restated partnership agreement also restricts the remedies available to unitholders for actions taken that without those limitations, constitute breaches of fiduciary duty. An audit committee of the Star Gas LLC board has been created, consisting of two directors who are not officers of the general partner. At the request of the general partner the audit committee will review conflicts of interest that may arise between the general partner or its affiliates, on the one hand, and Star Gas Partners, on the other. See "Management of Star Gas Partners After the Transaction" and "--Fiduciary Duties Owed to Unitholders by the General Partner as Prescribed by Law and the Amended and Restated Partnership Agreement."

Conflicts of interest could arise in the situations described below, among others:

Actions Taken by the General Partner May Affect the Amount of Cash Available for Distribution to Unitholders or Accelerate the Right to Convert Senior Subordinated Units and Junior Subordinated Units. The amount of cash that is available for distribution to unitholders is affected by decisions of the general partner regarding matters such as:

- . cash expenditures,
- . participation in capital expansions and acquisitions,
- . borrowings,
- . issuance of additional units and
- . establishment of reserves.

In addition, borrowings by Star Gas Partners do not constitute a breach of any duty owed by the general partner to the unitholders, including those borrowings that have the purpose or effect of:

- . causing incentive distributions to be made or
- . hastening the expiration of the subordination period.

The amended and restated partnership agreement provides that Star Gas Partners may borrow funds from the general partner and its affiliates although the general partner and its affiliates may not borrow funds from Star Gas Partners.

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Star Gas Partners' Borrowings May Enable the General Partner to Permit Distributions on the Senior Subordinated Units, Junior Subordinated Units and General Partner Units. Typically the general partner must act as a fiduciary to Star Gas Partners and the unitholders, and therefore must consider Star Gas Partners' best interests. However, it is not a breach of the general partner's fiduciary duty under the amended and restated partnership agreement if Star Gas Partners' borrowings are effected in a manner that, directly or indirectly, enables the general partner to permit the payment of distributions on the senior subordinated units, junior subordinated units and general partner units.

The General Partner Intends to Limit Its Liability with Respect to Star Gas Partners' Obligations. The general partner intends to limit Star Gas Partners' liability under contractual arrangements so that the other party has recourse only as to all or particular assets of Star Gas Partners, and not against the general partner or its assets. The amended and restated partnership agreement provides that any action taken by the general partner to limit its liability, or that of Star Gas Partners, is not a breach of the general partner's fiduciary duties, even if Star Gas Partners could have obtained more favorable terms without the limitation on liability.

Unitholders Have No Right to Enforce Obligations of the General Partner and Its Affiliates Under Agreements with Star Gas Partners. Star Gas Partners will acquire services from, or provide services to, the general partner and its affiliates on an ongoing basis. The agreements relating to these arrangements

will not grant to the unitholders, separate and apart from Star Gas Partners, the right to enforce the obligations of the general partner and its affiliates in favor of Star Gas Partners.

Contracts Between Star Gas Partners on the One Hand, and the General Partner and Its Affiliates on the Other Will Not Be the Result of Arm's-Length Negotiations. The amended and restated partnership agreement allows the general partner to pay itself or its affiliates for any services rendered, provided these services are rendered on terms that are fair and reasonable to Star Gas Partners. The general partner may also enter into additional contractual arrangements with any of its affiliates on behalf of Star Gas Partners. Neither the amended and restated partnership agreement nor any of the other agreements, contracts and arrangements between Star Gas Partners, on the one hand, and the general partner and its affiliates, on the other, are or will be the result of arm's-length negotiations. All of these transactions entered into are required to be on terms that are fair and reasonable to Star Gas Partners.

The General Partner's Affiliates May Compete with Star Gas Partners. Except for Irik P. Sevin, affiliates of the general partner are not prohibited from competing with Star Gas Partners. Mr. Sevin's non-competition agreement with Star Gas Partners provides that following the completion of the transaction he will not engage in the retail propane or retail home heating oil business in the United States so long as he

- . is a director, officer or employee of the general partner, Star Gas Partners or a subsidiary of Star Gas Partners or
- . has access to information that would put Star Gas Partners at a competitive disadvantage.

Further, Mr. Sevin is precluded from employing a person who was a managerial employee of the general partner, Star Gas Partners or a subsidiary of Star Gas Partners for the twelve-months after that employment so long as Mr. Sevin and his mother, Ms. Audrey Sevin, own in the aggregate more than a 10% voting interest in the general partner.

#### Fiduciary Duties Owed to Unitholders by the General Partner as Prescribed by Law and the Amended and Restated Partnership Agreement

The general partner is accountable to Star Gas Partners and the unitholders as a fiduciary. Consequently, the general partner must exercise good faith and integrity in handling the assets and affairs of Star Gas Partners. In contrast to the relatively well-developed law concerning fiduciary duties owed by officers and directors to the common stockholders of a corporation, the law concerning the duties owed by general partners to other partners and to partnerships is relatively undeveloped. Neither the Delaware Act nor case law defines with particularity the fiduciary duties owed by general partners to limited partners of a limited partnership. The Delaware Act does provide that Delaware limited partnerships may, in their partnership agreements, restrict or expand the fiduciary duties owed by general partners to limited partners and the partnership. Fiduciary duties are generally considered to include an obligation to act with the highest good faith, fairness and loyalty. Such duty of loyalty, in the absence of a provision in a partnership agreement providing otherwise, would generally prohibit a general partner from taking any action or engaging in any transaction where a conflict of interest is present. In order to induce the general partner to manage the business of Star Gas Partners, the amended and restated partnership agreement contains various provisions limiting the fiduciary duties that might otherwise be owed by the general partner. The amended and restated partnership agreement also contains provisions that waive or consent to conduct by the general partner that might otherwise raise issues of compliance with fiduciary duties or applicable law.

In order to become a limited partner of Star Gas Partners, a unitholder is required to agree to be bound by its provisions, including the provisions discussed above. This is in accordance with the policy of the Delaware Act favoring the principle of freedom of contract and the enforceability of partnership agreements. The Delaware Act also provides that a partnership agreement is enforceable even if not signed by a person being admitted as a limited partner or becoming an assignee of a limited partner interest in accordance with the terms of that agreement.



Whenever a conflict of interest arises between the general partner or its affiliates, on the one hand, and Star Gas Partners or any other partner, on the other, the general partner shall resolve this conflict. The general partner shall not be in breach of its obligations under the amended and restated partnership agreement or its duties to Star Gas Partners or the unitholders if the resolution of this conflict is fair and reasonable to Star Gas Partners. Any resolution is fair and reasonable to Star Gas Partners if the resolution is

- (1) approved by the audit committee, although no party is obligated to seek approval and the general partner may adopt a resolution or course of action that has not received approval,
- (2) on terms no less favorable to Star Gas Partners than those generally being provided to or available from unrelated third parties or
- (3) fair to Star Gas Partners, taking into account the totality of the relationships between the parties involved, including other transactions that may be particularly favorable or advantageous to Star Gas Partners.

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#### CASH DISTRIBUTION POLICY

The following discussion gives effect to the adoption of the amendment proposal and is furnished by Star Gas Partners. Thus, references to "we," "us" and "our" are to Star Gas Partners. Also, the following section discussing Star Gas Partners cash distribution policy, refers to Star Gas Partners unitholders as unitholders and refers to Star Gas Partners units as units. A glossary of defined terms used in this proxy statement begins on page 198.

#### General Description of Star Gas Partners' Cash Distribution

In general, we distribute to our partners on a quarterly basis, all of our Available Cash in the manner described below. Available Cash is defined in the glossary and generally means, with respect to any of our fiscal quarters, all cash on hand at the end of that quarter, less the amount of cash reserves that are necessary or appropriate in the reasonable discretion of the general partner to:

- (1) provide for the proper conduct of Star Gas Partners' business,
- (2) comply with applicable law, any of our debt instruments or other agreements or
- (3) provide funds for distributions to the common unitholders and the senior subordinated unitholders during the next four quarters, in some circumstances.

The general partner may not establish cash reserves for distributions to the senior subordinated units unless the general partner has determined that the establishment of reserves will not prevent us from distributing the minimum quarterly distribution on all common units and any common unit arrearages for the next four quarters. As discussed below, the restrictions on distributions to senior subordinated units, junior subordinated units and general partner units could result in cash that would otherwise be Available Cash being reserved for other purposes.

Cash distributions will be characterized as distributions from either Operating Surplus or Capital Surplus. This distinction affects the amounts distributed among different classes of units. See "--Quarterly Distributions of Available Cash."

Operating Surplus is defined in the glossary and generally means:

- (1) the cash balance of Star Gas Partners on the date we commenced operations, plus approximately \$20 million, plus all of our cash receipts, excluding cash receipts that constitute Capital Surplus, less
- (2) all of our operating expenses, debt service payments, maintenance capital expenditures and reserves established for future operations; provided, however, that Operating Surplus is calculated without any reduction for costs or expenses incurred in the transaction.

Capital Surplus is also defined in the glossary and is generally generated only by borrowings other than for working capital purposes, sales of debt and equity securities and sales or other dispositions of assets for cash, other than inventory, accounts receivable and other assets, all as disposed of in the ordinary course of business.

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All Available Cash distributed from any source will be treated as distributed from Operating Surplus until the sum of all Available Cash distributed since our commencement equals the Operating Surplus as of the end of the quarter before that distribution. This method of cash distribution avoids the difficulty of trying to determine whether Available Cash is distributed from Operating Surplus or Capital Surplus. Any excess Available Cash, irrespective of its source, will be deemed to be Capital Surplus and distributed accordingly.

If Capital Surplus is distributed on each common unit issued in our initial public offering in an aggregate amount per unit equal to \$22.00 per common unit, the distinction between Operating Surplus and Capital Surplus will cease. All distributions after that date will be treated as from Operating Surplus. The general partner does not expect that there will be significant distributions from Capital Surplus.

The senior subordinated units and the junior subordinated units are each a separate class of interests in Star Gas Partners, and the rights of holders of those interests to participate in distributions differ from the rights of the holders of common units. When issued, the Class B common units will also be a separate class of interests in Star Gas Partners.

#### Quarterly Distributions of Available Cash

Except for the limitations and prohibitions on distributions discussed below, we will make distributions to our partners with respect to each of our fiscal quarters prior to liquidation in an amount equal to all of our Available Cash for that quarter. Distributions will be made approximately 45 days after each March 31, June 30, September 30 and December 31, to holders of record on the applicable record date. We are prohibited from making any distributions on our senior subordinated units, junior subordinated units and general partner units during the remainder of our fiscal year 1999, which ends on September 30, 1999. If we generate sufficient Available Cash to satisfy the limitation described below, the first distribution permitted to be paid to the holders of the senior subordinated units issued in the transaction will be paid for the first quarter of our fiscal year 2000, which begins on October 1, 1999. The first distribution on the common units, including those issued in the equity offering, after the completion of the transaction will be paid for the quarter ending March 31, 1999 on approximately May 15, 1999 to holders of record on approximately May 4, 1999 regardless of how many days the common units have been outstanding. For a discussion of the restrictions on distributions to the holders of subordinated interests, see "--Limitation on Distributions on Subordinated Interests."

Upon expiration of the subordination period, all senior subordinated units and junior subordinated units will be converted, on a one-for-one basis, into Class B common units, and distributions on the general partner units will no longer be subordinated to distributions on the common units. All references to common units after the expiration of the subordination period are references to Class A common units and Class B common units, collectively, unless otherwise indicated. Neither Class A common units nor Class B common units will accrue arrearages for any quarter after the subordination period, and senior subordinated units, junior subordinated units and general partner units will not accrue any arrearages on distributions for any quarter.

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#### Distributions of Available Cash from Operating Surplus During the Subordination Period

The subordination period is defined in the glossary and will generally extend until the first day of any quarter beginning on or after October 1, 2002 that each of the following three events occur:

- (1) Distributions of Available Cash from Operating Surplus on the common units, senior subordinated units, junior subordinated units and general partner units equaled or exceeded the sum of the minimum quarterly distributions on all of the outstanding common units, senior subordinated units, junior subordinated units and general partner units with respect to each of the three non-overlapping four-quarter periods immediately preceding that date.
- (2) The Adjusted Operating Surplus generated during each of the three immediately preceding non-overlapping four-quarter periods equaled or exceeded the sum of the minimum quarterly distributions on all of the outstanding common units, senior subordinated units, junior subordinated units and general partner units during those periods on a fully diluted basis with respect to employee options or other employee incentive compensation. This includes all outstanding units and all common units issuable upon exercise of employee options that have, as of the date of determination, already vested or are scheduled to vest prior to the end of the quarter immediately following the quarter for which the determination is made. It also includes all units that have as of the date of determination been earned by but not yet issued to management of Star Gas Partners in respect of incentive compensation.
- (3) There are no arrearages in payment of the minimum quarterly distribution on the common units.

In certain circumstances, if the general partner is removed without cause, the subordination period will end, any existing arrearages on the common units will be extinguished, the senior subordinated units and junior subordinated units will immediately convert into Class B common units and distributions on the general partner units will no longer be subordinated. See "The Amended and Restated Partnership Agreement--Withdrawal or Removal of the General Partner; Approval of Successor General Partner."

Distributions of Available Cash from Operating Surplus with respect to any quarter during the subordination period will be made in the following manner:

- . First, 100% to the common units, pro rata, until there has been distributed for each common unit an amount equal to the minimum quarterly distribution for that quarter.
- . Second, 100% to the common units, pro rata, until there has been distributed for each common unit an amount equal to any cumulative common unit arrearages on each common unit for any prior quarter.
- . Third, 100% to the senior subordinated units, pro rata, until there has been distributed for each senior subordinated unit an amount equal to the minimum quarterly distribution for that quarter.
- . Fourth, 100% to the junior subordinated units and general partner units, pro rata, until there has been distributed for each junior subordinated unit and general partner unit an amount equal to the minimum quarterly distribution for that quarter.
- . Thereafter, in the manner described in "--Incentive Distributions During the Subordination Period" below.

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Upon completion of the transaction, the general partner will have a 1.99% general partner interest in Star Gas Partners in the form of general partner units and a 0.01% general partner interest in Star Gas Propane. References in this proxy statement to distributions on the general partner units disregard the general partner's 0.01% general partner interest in Star Gas Propane.

Distributions of Available Cash from Operating Surplus After the Subordination Period

Distributions of Available Cash from Operating Surplus for any quarter after the subordination period will be made in the following manner:

- (1) First, 100% to all units, pro rata, until there has been distributed to each unit an amount equal to the minimum quarterly distribution for that quarter.

- (2) Thereafter, in the manner described in "--Incentive Distributions After the Subordination Period" below.

Incentive Distributions During the Subordination Period

For any quarter that both (1) and (2) below occur, holders of the senior subordinated units, junior subordinated units and general partner units will receive incentive distributions as described below.

- (1) Available Cash from Operating Surplus is distributed to each of the common units, senior subordinated units, junior subordinated units and general partner units in an amount equal to the minimum quarterly distribution.
- (2) Available Cash has been distributed on outstanding common units in the amount as may be necessary to eliminate any cumulative common unit arrearages.

After the distributions described in (1) and (2) above are met, additional Available Cash from Operating Surplus in respect of that quarter will be distributed among the units in the following manner:

- . First, 100% to all units, until each unit has received, in addition to any distributions to the common units to eliminate any cumulative common unit arrearages, a total of \$0.604 per unit for that quarter (the "First Target Distribution").
- . Second, 86.7% to all units, pro rata, and 13.3% to all senior subordinated units, junior subordinated units and general partner units, pro rata, until each common unit has received, in addition to any distributions to eliminate any cumulative common unit arrearages, a total of \$0.711 for that quarter (the "Second Target Distribution").
- . Third, 76.5% to all units, pro rata, and 23.5% to all senior subordinated units, junior subordinated units and general partner units, pro rata, until each common unit has received, in addition to any distributions to eliminate any cumulative common unit arrearages, a total of \$0.926 per unit for that quarter (the "Third Target Distribution").
- . Thereafter, 51.0% to all units, pro rata, and 49.0% to all senior subordinated units, junior subordinated units and general partner units, pro rata.

The amended and restated partnership agreement may not be amended, including the issuance of additional partnership securities, in any manner that would increase the aggregate amount of incentive distributions without the approval of a majority of the outstanding units of the classes, each class voting separately, that would be adversely affected.

The following table illustrates the amount of Available Cash from Operating Surplus distributed pro rata as the base distribution to all unitholders pro rata and the percentage of Available Cash distributed as incentive distributions to the holders of senior subordinated units, junior subordinated units and general partner units only at the target distribution levels. The percentages in the table below are the percentage interests of the unitholders in Available Cash from Operating Surplus distributed as base distributions to all unitholders and distributed as incentive distributions based on the number of units outstanding immediately after completion of the transaction.

Quarterly Distribution Amount per Common Unit	Percentage of Available Cash Distributed as Base Distributions	Percentage of Available Cash Distributed as Incentive Distributions	Percentage of Available Cash Distributed as Incentive Distributions to the Specified Unit Class		
			Senior Subordinated Units	Junior Subordinated Units	General Partner Units

Minimum Quarterly Distribution.....	\$0.575	100.0%	--	--	--	--
First Target Distribution.....	0.604	100.0	--	--	--	--
Second Target Distribution.....	0.711	86.7	13.3%	10.2%	1.8%	1.3%
Third Target Distribution.....	0.926	76.5	23.5	18.0	3.1	2.3
Thereafter.....	--	51.0	49.0	37.6	6.5	4.9

The percentage allocation of incentive distributions among senior subordinated units, junior subordinated units and general partner units, will change in the future if there are additional non- proportional issuances of units.

The following table illustrates the distribution of Available Cash per unit among the common units, senior subordinated units, junior subordinated units and general partner units at the target distribution levels. The calculations are based on the assumption that the quarterly distribution amounts shown do not include any cumulative common unit arrearages. The amounts in the table below are based on the units outstanding immediately after completion of the transaction.

	Quarterly Distribution Amount			
	Common Unit	Senior Subordinated Unit	Junior Subordinated Unit	General Partner Unit
Minimum Quarterly Distribution.....	\$0.575	\$0.575	\$0.575	\$0.575
First Target Distribution.....	0.604	0.604	0.604	0.604
Second Target Distribution.....	0.711	0.793	0.793	0.793
Third Target Distribution.....	0.926	1.337	1.337	1.337

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#### Incentive Distributions After the Subordination Period

For any quarter for which Available Cash from Operating Surplus is distributed to each of the Class A common units, the Class B common units and general partner units in an amount equal to

the minimum quarterly distribution, then any additional Available Cash from Operating Surplus for that quarter will be distributed among the unitholders in the following manner:

- .First, 100% to all units, pro rata, until each unit has received the First Target Distribution.
- .Second, 86.7% to all units, pro rata, and 13.3% to all Class B common units and general partner units, pro rata, until each Class A common unit has received the Second Target Distribution.
- . Third, 76.5% to all units, pro rata, and 23.5% to all Class B common units and general partner units, pro rata, until each Class A common unit has received the Third Target Distribution.
- . Thereafter, 51% to all units, pro rata, and 49% to all Class B common units and general partner units, pro rata.

The following table illustrates the distribution of Available Cash per unit among the Class A common units, Class B common units and general partner units at the target distribution levels. The calculations are based on the assumption that the quarterly distribution amounts shown do not include any cumulative common unit arrearages. The amounts set forth below are based on the number of units outstanding immediately after completion of the transaction.

	Quarterly Distribution		
	Class A Common Unit	Class B Common Unit	General Partner Unit
Minimum Quarterly Distribution.....	\$0.575	\$0.575	\$0.575
First Target Distribution.....	0.604	0.604	0.604
Second Target Distribution.....	0.711	0.793	0.793
Third Target Distribution.....	0.926	1.337	1.337

#### Distributions from Capital Surplus

Distributions of Available Cash from Capital Surplus will be made 100% on all units, pro rata, until each common unit that was issued in our initial public offering has received distributions equal to \$22.00. This was the unit price from the initial public offering. Thereafter, all distributions from Capital Surplus will be distributed as if they were from Operating Surplus.

When a distribution is made from Capital Surplus, it is treated as if it were a repayment of the unit price from the initial public offering. To reflect repayment, the minimum quarterly distribution and the target distribution levels will be adjusted downward by multiplying each amount by a fraction. This fraction is determined as follows: the numerator is the unrecovered initial unit price immediately after giving effect to the repayment and the denominator is the unrecovered initial unit price immediately prior to the repayment. For example, based on the Unrecovered Initial Unit Price of \$22.00 per unit and assuming Available Cash from Capital Surplus of \$11.00 per unit is distributed on all common units issued in the initial public offering, then the amount of the minimum quarterly distribution and the target distribution levels would each be reduced to 50% of its initial level.

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A "payback" of the unit price from the initial public offering occurs when the unrecovered initial unit price is zero. At that time, the minimum quarterly distribution and the target distribution levels each will have been reduced to zero. Thereafter, all distributions of Available Cash from all sources will be treated as if they were from Operating Surplus. Because the minimum quarterly distribution and the target distribution levels will have been reduced to zero, the holders of the rights to incentive distributions will then be entitled to receive 49% of all distributions of Available Cash, after distributions for cumulative common unit arrearages.

Distributions from Capital Surplus will not reduce the minimum quarterly distribution or any of the target distribution levels for the quarter in which they are distributed.

#### Limitation and Prohibitions on Distributions on Subordinated Interests

Distributions on the senior subordinated units, junior subordinated units and general partner units are prohibited during the remainder of our fiscal year 1999, which ends on September 30, 1999. There is no prohibition on distributions to common units during this time.

Beginning with the first quarter of our fiscal year 2000, which begins on October 1, 1999, no distributions will be made on the senior subordinated units, junior subordinated units or general partner units, unless the aggregate amount of distributions on all units for all quarters, beginning with the first quarter of our fiscal year 2000, is equal to or less than the total Operating Surplus generated by us since October 1, 1999. Solely for purposes of this limitation, Operating Surplus does not include our cash balance on the date we commenced operations, plus approximately \$20 million.

The holders of the senior subordinated units, junior subordinated units and general partner units are not prohibited from receiving distributions from Capital Surplus in a partial liquidation during the subordination period.

#### Adjustment of Minimum Quarterly Distribution and Target Distribution Levels

In addition to adjustments made upon a distribution of Available Cash from Capital Surplus, the following will each be proportionately adjusted upward or downward, as appropriate, if any combination or subdivision of units should occur:

- (1) the minimum quarterly distribution,
- (2) the target distribution levels,
- (3) the Unrecovered Initial Unit Price,
- (4) the number of additional common units issuable during the subordination period without a unitholder vote,
- (5) the number of Class B common units issuable upon conversion of the senior subordinated units and the junior subordinated units and
- (6) other amounts calculated on a per unit basis.

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However, no adjustment will be made by reason of the issuance of additional units for cash or property. For example, if a two-for-one split of the common units should occur, the minimum quarterly distribution, the target distribution levels and the unrecovered initial unit price would each be reduced to 50% of its initial level.

The minimum quarterly distribution and target distribution levels may also be adjusted if legislation is enacted or if existing law is modified or differently interpreted in a manner that causes Star Gas Partners to become taxable as a corporation or otherwise subject to taxation as an entity for federal, state or local income tax purposes. In this event, the minimum quarterly distribution and target distribution levels for each quarter thereafter would be reduced to amounts equal to the product of

- (1) the minimum quarterly distribution or target distribution level multiplied by
- (2) one minus the sum of
  - (x) the highest marginal federal corporate income tax rate to which we are then subject as an entity, plus
  - (y) any increase in the effective overall state and local income tax rate to which we are subject as a result of the new imposition of the entity level tax, after taking into account the benefit of any deduction allowable for federal income tax purposes with respect to the payment of state and local income taxes, but only to the extent of the increase in rates resulting from that legislation or interpretation.

For example, assuming we are not previously subject to state and local income tax, if we were to become taxable as an entity for federal income tax purposes and we became subject to a maximum marginal federal, and effective state and local, income tax rate of 38%, then the minimum quarterly distribution and the target distribution levels would each be reduced to 62% of the amount thereof immediately prior to the adjustment.

#### Issuance of Additional Senior Subordinated Units

The amended and restated partnership agreement provides for the issuance of up to 909,000 additional senior subordinated units if Petro meets specified financial tests. Specifically, if the dollar amount of Petro Adjusted Operating Surplus per Petro Unit equals or exceeds \$2.90 for any four-quarter period that occurs between the first and fifth anniversaries of the transaction, we will issue 303,000 senior subordinated units to the holders of the senior subordinated units, junior subordinated units and general partner units of record for the final quarter of that four-quarter period. After the end of the subordination period, we would instead issue 303,000 Class B common units to the holders of the Class B common units and the general partner units. In any case, we may not issue more than 303,000 senior subordinated units or Class B

common units in any 365-day period. Furthermore, we may not issue more than 909,000 senior subordinated units or Class B common units pursuant to this provision in the aggregate. We will not issue any fractional units in the issuance of these additional units but will pay to each holder who would otherwise be entitled to a fractional unit an amount in cash in lieu of those fractional units. The amount of cash to be paid will be determined by multiplying the fraction by the current market price of a senior subordinated unit or a Class B common unit, as the case may be. For this purpose, the current market price is set as of the date three days prior to issuance of the additional units. On the first day after the record date for

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distributions with respect to the first quarter ending on or after the fifth anniversary of completion of the transaction, the right to receive the additional units shall lapse and all conversion rights shall cease to exist.

"Petro Adjusted Operating Surplus" means, for any four-quarter period, the Adjusted Operating Surplus generated by Petro, which includes all subsidiaries of Star Gas Partners primarily engaged in the home heating oil business, during that four quarter period. The determination of this amount is made in good faith by a majority of the members of the board of directors of the general partner acting with the concurrence of the audit committee. In calculating Petro Adjusted Operating Surplus,

- (1) debt service, including the payment of principal, interest and premium on all debt incurred or assumed by Petro or any of its affiliates, the proceeds of which are used by or for the benefit of Petro, including the proceeds from the debt offering, shall be included to the extent that debt service is included in the calculation of Operating Surplus, and
- (2) debt service, including the payment of principal, interest and premium, on all debt incurred or assumed by Petro or any of its affiliates, the proceeds of which are not used by or for the benefit of Petro, shall be excluded.

"Petro Units", for any date, means the sum of

- (1) the excess of the number of units outstanding at completion of the transaction over the number of units outstanding immediately before the completion of the transaction, assuming the simultaneous closing of the equity offering,
- (2) the number of units issued by Star Gas Partners after the transaction to the extent the net proceeds of which are contributed to Petro, which for these purposes includes all subsidiaries of Star Gas Partners primarily engaged in the home heating oil business,
- (3) the number of senior subordinated units or Class B common units issued under the amended and restated partnership agreement based on the performance of Petro and
- (4) the deemed number of units outstanding based upon a contribution of capital to Petro by Star Gas Partners or any of its affiliates after completion of the transaction, which contribution is not covered by (2) above or traceable to debt proceeds, which number of deemed units is obtained by dividing
  - (A) the amount of that Star Gas Partners contribution by
  - (B) the Current Market Price of a common unit, or of a Class A common unit after the termination of the subordination period.

For purposes of (4) above, the amount used to pay down the Petro debt discussed below will be treated as if it were contributed to Petro by Star Gas Partners. Specifically, Petro debt paid or debt allocated to Petro from internally generated funds that exist at Petro only because Petro has not paid dividends up to Star Gas Partners in an amount equal to the distributions that would have been paid on the Petro Units had they been actual outstanding units of Star Gas Partners will fall within (4) above. The distribution per senior subordinated unit of Star Gas Partners shall be the amount that Star Gas Partners would have been deemed to have distributed per Petro Unit had they been actual



outstanding units of Star Gas Partners. For purposes of the number of deemed outstanding units in (4) above, those units shall be deemed to be issued on the date of the capital contribution. For purposes of determining the number of outstanding Petro Units for any period of time, the number of units issued under (2) and (4) above shall be determined on a weighted average basis based on the amount of time they have been outstanding. For this purpose, common unit means Class A common unit upon expiration of the subordination period. Petro Units are not "units" as such term is used in this proxy statement.

The terms upon which any of the said additional units may be issued may not be amended in a manner that would materially adversely affect the rights of the holders thereof without the affirmative vote of the holders of a majority of the outstanding senior subordinated units, junior subordinated units and general partner units, voting together as a single class.

#### Distributions of Cash upon Liquidation During the Subordination Period

Following the commencement of the dissolution and liquidation, assets will be sold or otherwise disposed of and the partners' capital account balances will be adjusted to reflect any resulting gain or loss. The proceeds of liquidation will first be applied to the payment of our creditors in the order of priority provided in the amended and restated partnership agreement and by law and, thereafter, be distributed on the units in accordance with respective capital account balances, as so adjusted.

Partners are entitled to liquidation distributions in accordance with capital account balances. Although operating losses are allocated on all units pro rata, the allocations of gains and losses attributable to liquidation are intended to favor the holders of outstanding common units over the holders of all other outstanding units, to the extent of the unrecovered initial unit price plus any cumulative common unit arrearages. However, no assurance can be given that there will be sufficient gain upon liquidation of Star Gas Partners to enable the holders of common units to fully recover their unrecovered initial unit price and arrearages, even though there may be cash available for distribution to the holders of senior subordinated units and junior subordinated units. The manner of the adjustment is provided in the amended and restated partnership agreement. If our liquidation occurs before the end of the subordination period, any gain, or unrealized gain attributable to assets distributed in kind, will be allocated to the partners in the following manner:

- . First, to the partners that have negative balances in their capital accounts, to the extent of and in proportion to, those negative balances.
- . Second, 100% to the common units, pro rata, until the capital account for each common unit is equal to the unrecovered initial unit price for that common unit plus the amount of the minimum quarterly distribution for the fiscal quarter during which the dissolution occurs, plus any cumulative common unit arrearages on those common units.
- . Third, 100% to the senior subordinated units, pro rata, until the capital account for each senior subordinated unit is equal to the unrecovered initial unit price plus the amount of the minimum quarterly distribution for the fiscal quarter during which the dissolution occurs.
- . Fourth, 100% to the junior subordinated units and general partner units, pro rata, until the capital account for each junior subordinated unit is equal to the unrecovered initial unit price plus the amount of the minimum quarterly distribution for the fiscal quarter during which the dissolution occurs.

- . Fifth, 100% to all units, pro rata, until there has been allocated under this clause an amount per common unit equal to (a) the excess of the First Target Distribution per unit over the then effective minimum quarterly distribution per unit for each quarter of Star Gas Partners' existence, less (b) the amount per common unit of any distributions of Available Cash from Operating Surplus in excess of the then effective minimum quarterly distribution per unit that was distributed 100% to all units, pro rata, for each quarter of Star Gas Partners' existence.

- . Sixth, 86.7% to all units, pro rata, 13.3% to senior subordinated units, junior subordinated units and general partner units, pro rata, until there has been allocated under this clause an amount per common unit equal to (a) the excess of the Second Target Distribution per common unit over the First Target Distribution per common unit for each quarter of Star Gas Partners' existence, less (b) the amount per common unit of any distributions of Available Cash from Operating Surplus in excess of the First Target Distribution per common unit but not in excess of the Second Target Distribution for each quarter of Star Gas Partners' existence.
- . Seventh, 76.5% to all units, pro rata, and 23.5% to all senior subordinated units, junior subordinated units and general partner units, pro rata, until there has been allocated under this clause an amount per common unit equal to (a) the excess of the Third Target Distribution per common unit over the Second Target Distribution but not in excess of the Third Target Distribution for each quarter of Star Gas Partners' existence.
- . Thereafter, 51.0% to all units, pro rata, and 49.0% to all senior subordinated units, junior subordinated units and general partner units, pro rata.

Any loss or unrealized loss will be allocated to the unitholders in the following manner:

- . First, 100% to the junior subordinated units and general partner units, pro rata, in proportion to the positive balances in their respective capital accounts until the positive balances in their respective capital accounts have been reduced to zero.
- . Second, 100% to the senior subordinated units in proportion to the positive balances in their respective capital accounts until the positive balances in their respective capital accounts have been reduced to zero.
- . Third, 100% to the common units in proportion to the positive balances in their respective capital accounts until the positive balances in the respective capital accounts have been reduced to zero.
- . Thereafter, to the general partner units.

#### Distributions of Cash upon Liquidation After the Subordination Period

If our liquidation occurs after the end of the subordination period, any gain, or unrealized gain attributable to assets distributed in kind, will be allocated to the partners in the following manner:

- . First, to the partners that have negative balances in their capital accounts to the extent of and in proportion to those negative balances.
- . Second, 100% to all Class A common units and Class B common units, until the capital account for each Class A common unit and Class B common unit is equal to the unrecovered initial unit price (plus the amount of the minimum quarterly distribution for the fiscal quarter during which the dissolution occurs).

- . Third, 100% to all units, pro rata, until there has been allocated under this clause third an amount per Class A common unit equal to (a) the excess of the First Target Distribution per Class A common unit over the then effective minimum quarterly distribution for each quarter of our existence, less (b) the amount per Class A common unit of any distributions of Available Cash from Operating Surplus in excess of the then effective minimum quarterly distribution per Class A common unit that was distributed 100% to units, pro rata, for each quarter of our existence.
- . Fourth, 86.7% to all units, pro rata, and 13.3% to Class B common units and general partner units, pro rata, until there has been allocated under this clause fourth an amount per Class A common unit equal to (a) the excess of the Second Target Distribution per Class A common unit over the First Target Distribution per Class A common unit for each quarter of our existence, less (b) the amount per Class A common unit of any distributions of Available Cash from Operating Surplus in excess of the

First Target Distribution but not in excess of the Second Target Distribution for each quarter of our existence.

- . Fifth, 76.5% to all units, pro rata, and 23.5% to Class B common units and general partner units, pro rata, until there has been allocated under this clause fifth an amount per Class A common unit equal to (a) the excess of the Third Target Distribution per Class A common unit over the Second Target Distribution per Class A common unit for each quarter of our existence, less (b) the amount per Class A common unit of any distributions of Available Cash from Operating Surplus in excess of the Second Target Distribution but not in excess the Third Target Distribution for each quarter of our existence.
- . Thereafter, 51.0% to all units, pro rata, and 49.0% to all Class B common units and general partner units, pro rata.

Any loss or unrealized loss will be allocated to the general partner units, the Class A common units, Class B common units, pro rata, in proportion to the positive balances in their capital accounts, until the positive balances in the respective capital accounts have been reduced to zero.

Interim adjustments to capital accounts will be made at the time Star Gas Partners issues additional interests or makes distributions of property. These adjustments will be based on the fair market value of the interests issued or the property distributed and any gain or loss resulting therefrom will be allocated to the unitholders in the same manner as gain or loss is allocated upon liquidation.

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#### CASH AVAILABLE FOR DISTRIBUTION

Star Gas Partners believes that it will generate sufficient Available Cash from Operating Surplus for the first four-quarter period following the completion of the transaction to cover the full minimum quarterly distribution for the four-quarter period on all then outstanding units.

Even if this amount is generated, Star Gas Partners may, however, not distribute the cash. Star Gas Partners will not make distributions on the senior subordinated units, junior subordinated units and general partner units for any quarter during its fiscal year 1999. Beginning with the first quarter of its fiscal year 2000, Star Gas Partners is allowed to make distributions on the senior subordinated units, junior subordinated units and general partner units, but may distribute less than the minimum quarterly distribution on these units because of the subordination provisions and other limitations on distributions in the amended and restated partnership agreement.

Star Gas Partners' belief about the amount of cash it may generate is based on a number of assumptions, including the assumptions that:

- . normal weather conditions will prevail in Star Gas Partners' and Petro's operating areas,
- . Star Gas Partners' and Petro's operating margins will remain constant and
- . market and overall economic conditions will not change substantially.

Although Star Gas Partners believes its assumptions are within a range of reasonableness, most of the assumptions are not within the control of Star Gas Partners and cannot be predicted with any degree of certainty. For example, in any particular year or series of years, weather may deviate substantially from normal. Therefore, Star Gas Partners' assumptions concerning the weather may prove to be inaccurate. As a result, the Operating Surplus of Star Gas Partners could deviate from that currently expected. See "Risk Factors."

The amount of Available Cash constituting Operating Surplus needed to pay the minimum quarterly distribution for four quarters on the common units, senior subordinated units, junior subordinated units and general partner units to be outstanding immediately after the transaction is approximately:

Common Units.....	\$26,691,000
Senior Subordinated Units.....	5,730,000
Junior Subordinated Units.....	990,000

General Partner Units.....	743,000
	-----
Total.....	\$37,154,000

These amounts assume that 8.9 million common units will be issued in the equity offering. If more common units are issued in the equity offering, the amount of Available Cash constituting Operating Surplus needed to pay the minimum quarterly distribution will increase.

After giving pro forma effect to the transaction, the amount of pro forma Available Cash constituting Operating Surplus generated during the twelve months ended September 30, 1998, would have been approximately \$21.9 million. If infrequent restructuring, corporate identity and transaction expenses were not taken into effect, pro forma Available Cash constituting Operating Surplus would have been \$26.1 million. In fiscal 1998, temperatures were significantly warmer than normal for the areas in which Star Gas Partners conducts its propane operations and Petro conducts its home heating

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oil operations. Star Gas Partners believes that overall levels of both pro forma Available Cash from Operating Surplus and EBITDA were adversely affected during fiscal 1998 due to this abnormally warm weather. See "Unaudited Pro Forma Condensed Consolidated Financial Information."

Star Gas Partners is required to establish reserves for the future payment of principal and interest on the First Mortgage Notes and the indebtedness under the bank credit facilities. There are other provisions in such agreements that will, under some circumstances, restrict Star Gas Partners' ability to make distributions to its partners. See "Note 9 to Consolidated Financial Statements--Long-Term Debt and Working Capital Borrowings" in Star Gas Partners' Annual Report on Form 10-K for the fiscal year ended September 30, 1998 that is incorporated by reference in this proxy statement. The notes issued in the debt offering are expected to have provisions that will, under some circumstances, similarly restrict Star Gas Partners' ability to make distributions to its unitholders.

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#### DESCRIPTION OF THE STAR GAS PARTNERS UNITS

This discussion assumes the adoption of the amendment proposal.

The common units and senior subordinated units to be issued in the transaction have been registered under the Exchange Act, and Star Gas Partners is subject to the reporting requirements of the Exchange Act. Star Gas Partners is required to file periodic reports containing financial and other information with the SEC.

Common stockholders who receive common units or senior subordinated units in the transaction and subsequent transferees of common units and senior subordinated units will be required to execute a transfer application, which will be printed on the reverse side of the unit certificates. The form of transfer application is included as Appendix A. Common units and senior subordinated units may be held in nominee accounts, provided that the broker or other nominee executes and delivers a transfer application and becomes a limited partner. Star Gas Partners is entitled to treat the nominee holder of a common unit or a senior subordinated unit as the absolute owner thereof, and the beneficial owner's rights will be limited solely to those that it has against the nominee holder.

#### The Rights of Unitholders

Generally, the common units, senior subordinated units and junior subordinated units represent limited partner interests in Star Gas Partners, which entitle the holders thereof to participate in Star Gas Partners distributions and to exercise the rights or privileges available to limited partners under the amended and restated partnership agreement. For a description of the relative rights and preferences of holders of these three classes of units to distributions, together with a description of the circumstances under which senior subordinated units and junior subordinated units may convert into Class B common units, see "Cash Distribution Policy."

For a description of the rights of limited partners under the amended and restated partnership agreement, see "The Amended and Restated Partnership Agreement."

#### Transfer Agent and Registrar

Star Gas Partners has retained BankBoston N.A. as registrar and transfer agent for the common units and the senior subordinated units. All fees charged by the transfer agent for transfers of common units and senior subordinated units will be borne by Star Gas Partners and not by its holders of common units or senior subordinated units, except that fees similar to those customarily paid by stockholders for surety bond premiums to replace lost or stolen certificates, taxes and other governmental charges, special charges for services requested by a Star Gas Partners unitholder and other similar fees or charges will be borne by the unitholder. There will be no charge to unitholders for disbursements of Star Gas Partners' cash distributions. Star Gas Partners will indemnify the transfer agent against all claims and losses that may arise out of acts performed or omitted in respect of its activities as such.

The transfer agent may resign or be removed by Star Gas Partners. If no successor is appointed within 30 days, the general partner may act as the transfer agent and registrar until a successor is appointed.

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#### Obligations and Procedures for the Transfer of Units

Until a common unit, a senior subordinated unit or a junior subordinated unit has been transferred on the books of Star Gas Partners, Star Gas Partners and the transfer agent, notwithstanding any notice to the contrary, may treat the record holder thereof as the absolute owner for all purposes, except as otherwise required by law or stock exchange regulations. Any transfers of a common unit or a senior subordinated unit will not be recorded by the transfer agent or recognized by Star Gas Partners unless the transferee executes and delivers a transfer application. By executing and delivering a transfer application, the transferee of common units, senior subordinated units or junior subordinated units does the following.

- . Becomes the record holder of such units and shall be constituted as an assignee until admitted into Star Gas Partners as a substituted limited partner.
- . Automatically requests admission as a substituted limited partner in Star Gas Partners.
- . Agrees to be bound by the terms and conditions of, and executes, the amended and restated partnership agreement.
- . Represents that such transferee has the capacity, power and authority to enter into the amended and restated partnership agreement.
- . Grants powers of attorney to the general partner and any liquidator of Star Gas Partners as specified in the amended and restated partnership agreement.
- . Makes the consents and waivers contained in the amended and restated partnership agreement.

An assignee will become a substituted limited partner of Star Gas Partners for the transferred common units or senior subordinated units upon satisfaction of the following two conditions.

- . The consent of the general partner, which may be withheld for any reason in its sole discretion.
- . The recording of the name of the assignee on the books and records of Star Gas Partners.

Common units and senior subordinated units are securities and are transferable according to the laws governing transfer of securities. In addition to other rights acquired upon transfer, the transferor gives the transferee the right to request admission as a substituted limited partner in Star Gas Partners in respect of the transferred common units or senior subordinated units. A purchaser or transferee of common units or senior subordinated units who does not execute and deliver a transfer application

obtains only the following rights.

- . The right to assign the common unit or senior subordinated units to a purchaser or other transferee.
- . The right to transfer the right to seek admission as a substituted limited partner in Star Gas Partners for the transferred common units or senior subordinated units.

Thus, a purchaser or transferee of common units who does not execute and deliver a transfer application will not receive cash distributions unless the common units or senior subordinated units are held in a nominee or "street name" account and the nominee or broker has executed and delivered a transfer application with respect to such common units or senior subordinated units, and may not receive some federal income tax information or reports furnished to record holders of common units or senior subordinated units. The transferor of common units or senior subordinated

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units will have a duty to provide the transferee with all information that may be necessary to obtain registration of the transfer of the common units or senior subordinated units, but a transferee agrees, by acceptance of the certificate representing common units or senior subordinated units, that the transferor will not have a duty to insure the execution of the transfer application by the transferee and will have no liability or responsibility if the transferee neglects or fails to execute and forward the transfer application to the transfer agent. See "The Amended and Restated Partnership Agreement--Rights and Status as Limited Partner or Assignee Upon Transfer of Interest."

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#### COMPARISON OF SECURITIES

The following is a complete summary of the material differences between the attributes of Petro Class A common stock and the Star Gas Partners senior subordinated units that Petro common stockholders will receive.

##### Taxation

###### Petro Common Stock

The holders of Class A common stock realize taxable income when Petro makes actual distributions from current or accumulated earnings or, in other cases, if distributions exceed a holder's basis in its stock.

###### Star Gas Partners Senior Subordinated Units

The holders of the senior subordinated units will be required to report their share of Star Gas Partners' income, gains, losses and deductions on their federal income tax return whether or not distributions are made to them. In general, cash distributions on the senior subordinated units will be taxable only if, and to the extent that, they exceed a holder's tax basis in its senior subordinated units.

##### Distributions and Dividends

###### Petro Common Stock

Shares of Class A common stock are entitled to a pro rata share of any dividends declared by the Petro board to be made from funds legally available for the payment of dividends. However, no dividends may be paid on the shares of Class A

###### Star Gas Partners Senior Subordinated Units

common stock until all dividends have been paid, or declared and set apart, and all mandatory redemption requirements have been satisfied for the 1989 preferred stock and the 12 7/8% preferred stock.

The senior subordinated units generally are entitled to receive quarterly distributions from available cash during the subordination period after the common units receive the minimum quarterly distribution plus any arrearages. The senior subordinated units have the right to receive the minimum quarterly distribution before any distribution is made on the junior subordinated units and the general partner units. In addition, the senior subordinated units have the right to receive distributions in addition to the minimum quarterly distribution if quarterly distributions of available cash exceed the target distribution levels. However, no distribution can be paid on senior subordinated units unless Star Gas Partners meets certain cash generation requirements. No distributions will be made on the senior subordinated units in Star Gas Partners' fiscal year 1999, which ends September 30, 1999.

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#### Voting Rights

##### Petro Common Stock

##### Star Gas Partners Senior Subordinated Units

Class A common stockholders are entitled to one vote per share and Class C common stockholders are entitled to ten votes per share upon all matters submitted for a vote to the common stockholders. Except when required by Minnesota law and in specified special circumstances described in the restated articles of incorporation, Class B common stockholders are not entitled to vote. Generally, the action of the majority of the votes evidenced by the shares of all classes voting as a single class represented at a meeting of the common stockholders and entitled to vote is sufficient for actions that require a vote of the common stockholders.

All units have limited voting rights on matters affecting Star Gas Partners. The matters that do require unitholder approval generally require the approval of the holders of a unit majority, which prior to the expiration of the subordination period, includes the approval of a majority of the senior subordinated units and junior subordinated units voting together as a single class as well as the approval of a majority of the common units. Unitholders in Star Gas Partners do not elect the directors of the general partner.

#### Rights to Call Meetings

##### Petro Common Stock

##### Star Gas Partners Senior Subordinated Units

Petro is required to hold an annual stockholders meeting each year. Special meetings of the stockholders may be called, and business proposed

Star Gas Partners does not have annual meetings. A meeting of unitholders may be called only by:

at those meetings, by:

. the general partner or

.the Chairman of the Petro board  
or

. the holders of 20% or more of the  
outstanding units of the class for  
which the meeting is proposed.

. the Secretary upon the written  
request of a majority of the  
total number of directors that  
Petro would have if there were  
no vacancies.

#### Removal of Directors or the General Partner

Petro Common Stock

Star Gas Partners Senior  
Subordinated Units

The business and affairs of Petro  
are managed by or under the  
direction of the Petro board, whose  
members are elected by a plurality  
of the votes cast by stockholders.  
Stockholders may remove a director  
or the entire Petro board with or  
without cause. The removal of either  
a director or the Petro board  
requires the affirmative vote of a  
majority of the outstanding voting  
stock.

The business and affairs of Star Gas  
Partners are managed by or under the  
direction of the general partner.  
Subject to specified conditions, the  
general partner may be removed upon  
the approval of the holders of at  
least 66 2/3% of the outstanding  
units, excluding units owned by the  
general partner and its affiliates.

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#### Liquidation Rights

Petro Common Stock

Star Gas Partners Senior  
Subordinated Units

In the event of any complete  
liquidation, dissolution or winding  
up of the business of Petro,  
distributions are made to each class  
of equity security in the following  
order:

In the event of any liquidation of  
Star Gas Partners during the  
subordination period, the senior  
subordinated units will be entitled  
to receive a distribution out of the  
net assets of Star Gas Partners  
after liquidating distributions are  
made on the common units. The senior  
subordinated units will be entitled  
to receive a distribution out of the  
net assets of Star Gas Partners  
before liquidating distributions are  
made on the junior subordinated  
units and general partner units.

. first, each Class B share  
would be entitled to a  
distribution equal to \$5.70  
per share, as adjusted, before  
any distribution is made on  
any other class of Petro  
stock;

. second, each share of 1989  
preferred stock and each share  
of 12 7/8% preferred stock  
would be entitled to  
distributions equal to \$100  
per share and \$23 per share,  
plus accrued and unpaid  
dividends;

. third, each share of junior



convertible preferred stock would be entitled to a distribution of \$0.10 per share; and

. fourth, each share of Class A common stock, Class B common stock, Class C common stock and junior convertible preferred stock would participate equally in all liquidating distributions.

#### Conversion Rights

Petro Common Stock

Star Gas Partners Senior Subordinated Units

The Class A common stock is not convertible into any other security.

The senior subordinated units will convert into Class B common units upon the expiration of the subordination period. The subordination period will extend until the first day of any quarter beginning October 1, 2002 if specified amounts of available cash were distributed and earned in previous quarters.

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#### Liability of Holders

Petro Common Stock

Star Gas Partners Senior Subordinated Units

The liability of a holder of Class A common stock for the debts and obligations of Class A common stock is limited to that holder's investment in the stock. All Class A common stock is fully paid and non-assessable.

As long as a holder of a senior subordinated unit does not participate in the control of the business of Star Gas Partners and acts in accordance with the amended and restated partnership agreement, liability is limited to the holder's investment in the senior subordinated units. Except under limited exceptions, all senior subordinated units are fully paid and non-assessable.

#### Transferability and Listing

Petro Common Stock

Star Gas Partners Senior Subordinated Units

Shares of Class A common stock are freely transferrable and are quoted on the Nasdaq National Market.

The senior subordinated units are freely transferable and listed on the New York Stock Exchange.

#### Redemption

Petro Common Stock

Star Gas Partners Senior Subordinated Units

There are no redemption rights for shares of Class A common stock.

If at any time 20% or fewer of the then issued and outstanding limited partner interests of any class are

held by persons other than the general partner and its affiliates, the general partner will have the right to acquire all, but not less than all, of the remaining limited partner interests of that class. The general partner may assign this right to an affiliate or Star Gas Partners.

After the subordination period expires and the earlier of the fifth anniversary of the transaction or the issuance of 909,000 additional senior subordinated units and Class B common units in the aggregate, if Star Gas Partners acquires, in a twelve-month period, 66 2/3% or more of the total Class B common units, then Star Gas Partners will have the right to purchase all, but not less than all, of the remaining Class B common units during the following twelve-month period. Star Gas Partners may not assign this right.

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#### Appraisal Rights

Petro Common Stock

Star Gas Partners Senior  
Subordinated Units

Under Sections 302A.471 and 302A.473 of the Minnesota Business Corporation Act, described in Annex F to this proxy statement, common stockholders, other than those who have agreed to vote for the acquisition proposal or who have granted irrevocable powers to Petro to vote for the transaction at the special meeting, have the right to dissent, and obtain payment for the "fair value" of their shares, if corporate actions such as the transaction should occur.

The holders of the senior subordinated units, as well as the holders of all other units, are not entitled to dissenters' rights under the amended and restated partnership agreement or applicable Delaware law if a merger or consolidation of Star Gas Partners, or a sale, exchange or other disposition of substantially all of Star Gas Partners' assets should occur.

#### Preemptive Rights

Petro Common Stock

Star Gas Partners Senior  
Subordinated Units

Class A common stockholders do not have:

Senior subordinated unitholders do not have preemptive rights regarding the issuance of any securities of Star Gas Partners.

- . preemptive rights,
- . rights to maintain their respective percentage ownership interests or
- . other rights to subscribe for additional Petro stock.

#### Inspection of Books, Records and List of Holders

Petro Common Stock

Star Gas Partners Senior

## Subordinated Units

Under Section 302A.461 of the Minnesota Business Corporation Act, any stockholder, in person or by attorney or other agent, has the right, upon written demand under oath stating the purpose thereof, during the usual hours of business to inspect for any proper purpose:

As long as there exists a purpose reasonably related to a limited partner's interest, the senior subordinated unitholders may, upon reasonable demand and at their own expense, have furnished to them

- . the corporation's stock ledger,
  - . a list of its stockholders, and its other books and records, and
  - . to make copies or extracts therefrom.
- . a current list of the name and last known address of each partner,
  - . a copy of Star Gas Partners' tax returns,
  - . certain information on the value of contributions to Star Gas Partners,
  - . copies of the amended and restated partnership agreement, certificate of limited partnership and powers of attorney,
  - . information regarding the status of the Star Gas Partners' business and financial condition and
  - . other information regarding the affairs of Star Gas Partners that is just and reasonable.

A proper purpose means a purpose reasonably related to such person's interest as a stockholder.

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## DESCRIPTION OF INDEBTEDNESS

### New Indebtedness

#### Petro Notes

On the closing of the transaction, Petro will issue approximately \$90.0 million of senior secured notes in three separate series in a private placement to institutional investors. It is currently expected that the senior secured notes will be guaranteed by Star Gas Partners and Petro Holdings and its subsidiaries. The notes have been assigned a preliminary private credit rating of "BBB" by Fitch rating service. In addition, the senior secured notes will be secured equally and ratably with Petro's existing senior debt and bank credit facilities by the cash, accounts receivable, notes receivable, inventory and customer lists of Petro Holdings and its subsidiaries, including Petro.

Each series of senior secured notes will be for \$30.0 million and will mature seven, eight or ten years from the issuance date. In addition, each series will bear a fixed interest rate that will be determined at the time of pricing based upon the yield of specified United States treasury notes that equal the maturity of the series of notes plus a set percentage. Interest only on each series is due semiannually. On the last interest payment date for each series, the outstanding principal amount is due and payable in full.

The note agreement for the senior secured notes will contain various negative and affirmative covenants, including restrictions on payment of dividends or other distributions by Star Gas Partners on any partnership interest if the ratio of consolidated pro forma operating cash flow to consolidated pro forma interest expense, each as defined in the note agreement, is less than 1.75 to 1.0 for the period of the four most recent fiscal quarters ending on or prior to the date of the dividend or distribution or an event of default would exist.

Under the note agreement, Petro Holdings and its subsidiaries will be permitted to make cash distributions to Star/Petro Inc. if

- (a) the ratio of consolidated pro forma operating cash flow to consolidated pro forma interest expense is less than 1.75 to 1.0 for the period of the four most recent fiscal quarters ending on or prior to the date of the distribution;
- (b) the total cash distributions for all quarters beginning January 1, 1999 do not exceed specified amounts in the note agreement;
- (c) Star/Petro Inc. is the parent company of Petro Holdings Inc. and a wholly-owned subsidiary of Star Gas Propane.

If Petro fails to make any principal or interest payment, any noteholder may accelerate the maturity of the senior secured notes. If any event of default exists under the note agreement, holders of a majority of the outstanding principal amount of the senior secured notes may accelerate the maturity of the notes. The maturity of the senior secured notes is automatically accelerated if Petro, Star Gas Partners, Petro Holdings or any of their subsidiaries are generally unable to pay their debts as they become due or become subject to any bankruptcy or reorganization proceedings.

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#### Petro Bank Facilities

On or before the closing of the transaction, Petro will enter into a bank facilities agreement for approximately \$100.0 million in senior secured facilities with a group of commercial banks. The bank facilities will be guaranteed by Star Gas Partners and Petro Holdings and its subsidiaries. In addition, the bank facilities will be secured equally and ratably with Petro's new senior secured notes and existing institutionally owned senior debt by the cash, accounts receivable, notes receivable, inventory and customer lists of Petro and its subsidiaries.

The bank facilities will consist of three separate facilities--a \$40 million working capital facility, a \$10 million letter of credit facility and a \$50 million acquisition facility. The working capital facility and letter of credit facility will expire on June 30, 2001. The acquisition facility will convert to a term loan on June 30, 2001 which will be payable in eight equal quarterly principal payments. Amounts borrowed under the working capital facility are subject to a requirement to maintain a zero balance for 90 consecutive days during the period from April 1 to September 30 of each year. In addition, each facility will bear an interest rate that is based on either the London Interbank Offer Rate or another base rate plus a set percentage.

The bank facilities agreement will contain covenants and default provisions generally similar to those contained in the note agreement for the senior secured notes.

#### Existing Indebtedness

##### Description of First Mortgage Notes

Star Gas Propane currently has outstanding approximately \$96 million of first mortgage notes. Star Gas Propane's obligations under the first mortgage note agreements and the first mortgage notes are secured equally and ratably with Star Gas Propane's obligations under its bank credit facilities by a mortgage on most of the real property and liens on most of the operating facilities, equipment and other assets. Eighty-five million of the first mortgage notes have a final maturity of September 15, 2009 and \$11 million of the first mortgage notes have a final maturity of September 15, 2010. The first mortgage notes require semiannual prepayments, without premium, of the principal beginning March 15, 2001. Under specified circumstances following the disposition of assets, Star Gas Propane may be required to offer to prepay the first mortgage notes, in whole or in part.

The first mortgage note agreements contain various negative and affirmative covenants, including restrictions on payment of dividends or other distributions to any partnership interest if the pro forma ratio of consolidated cash flow to consolidated interest expense, each as defined in the first mortgage note agreements, is less than 1.75 to 1.0. Upon completion of the equity offering and after giving pro forma effect to the transaction, Star Gas Propane would be in compliance with the negative and affirmative covenants applicable under the first mortgage note agreements.

Under the first mortgage note agreements, so long as no default exists or would result, Star Gas Propane is permitted to make cash distributions to Star Gas Partners not more frequently than quarterly in an amount not to exceed available cash, as defined in the first mortgage note agreement, for the immediately preceding calendar quarter. If an event of default exists on the first mortgage notes, the noteholders may accelerate the maturity of the first mortgage notes and exercise other rights and remedies, including foreclosures upon the mortgaged property.

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In connection with the closing of the transaction, Star/Petro, Inc. will become jointly and severally liable with Star Gas Propane under the first mortgage notes and the first mortgage note agreements.

#### Description of Star Gas Propane Bank Credit Facilities

In December 1995, Star Gas Propane entered into credit facilities with a group of commercial banks. The bank credit facilities consist of a \$25.0 million acquisition facility and a \$12.0 million working capital facility. At September 30, 1998, \$9.0 million was outstanding under the acquisition facility and \$4.8 million was outstanding under the working capital facility.

The agreement governing the bank credit facilities contains covenants and default provisions generally similar to those contained in the first mortgage note agreements.

The Star Gas Propane working capital facility will expire on June 30, 2000, but may be extended annually with the consent of the banks. The Star Gas Propane acquisition facility will revolve until June 30, 1999 after which time any outstanding loans must be reduced by equal quarterly principal payments over the period from September 30, 1999 through September 30, 2002.

Amounts borrowed under both facilities are due at maturity. However, no amount must be outstanding under the Star Gas Propane working capital facility for at least 30 consecutive days during each calendar year. If Star Gas Propane exercises its option to convert the Star Gas Propane acquisition facility into a term loan, the outstanding principal balance under this facility will be amortized in equal quarterly installments.

#### Other Petro Debt

Petro has entered into private debt agreements with the holders of:

- . its outstanding 10.90% Senior Notes due 2002 in the aggregate principal amount of \$60 million; and
- . its 14.1% Senior and Subordinated Notes due 2001 in the aggregate principal amount of \$4.1 million.

Under the private debt agreements at the completion of the transaction:

- . the holders of the 10.90% notes will exchange them for \$63.1 million aggregate principal amount of 9.0% Senior Notes due 2002 of Petro; and
- . the holders of the 14.10% notes will exchange those notes for \$2.2 million aggregate principal amount of 10.25% Senior Notes due 2001 of Petro and \$2.2 million principal amount of 10.25% Subordinated Notes due 2001 of Petro.

The new 9% notes and the new 10.25% notes will be guaranteed by Star Gas Partners and Petro Holdings.

The agreements under which Petro will issue the new 9% and 10.25% notes will be substantially identical to the agreement under which the \$90.0 million of senior secured notes will be issued, including negative and affirmative covenants.

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Petro also had outstanding as of September 30, 1998 an aggregate of \$14.3

million of notes, primarily in connection with the purchase of fuel oil dealers, which notes are due variously in monthly, quarterly and annual installments with interest at various rates ranging from 8% to 15%, maturing at various dates through 2004.

In addition, following the closing of the transaction, Petro will have outstanding \$1.3 million of 10 1/8% Subordinated Debentures due 2003, \$0.7 million of 9 3/8% Subordinated Notes due 2006 and \$1.1 million of 12 1/4% Subordinated Notes due 2005. In October 1998, the indentures under which the 10 1/8%, 9 3/8% and 10 1/8% subordinated notes were issued were amended to eliminate substantially all of the covenant protection provided by the indentures.

COMPARATIVE SECURITY PRICE AND DISTRIBUTION INFORMATION

Star Gas Partners Securities

Common Units. Since May 29, 1998, the common units have been listed and traded on the New York Stock Exchange under the symbol "SGU." From December 20, 1995 through May 28, 1998, the common units were listed on the Nasdaq National Market. The following table sets forth the closing high and low sales prices per common unit on the Nasdaq National Market through May 28, 1998 and after that date on the New York Stock Exchange. The table also shows:

- . the cash distributions declared and paid per common unit for the fiscal quarters ended from December 31, 1996 through September 30, 1998; and
- . the cash distribution declared per common unit for the fiscal quarter ended December 31, 1998 payable February , 1999.

Fiscal Quarter Ended	Fiscal 1999			Fiscal 1998			Fiscal 1997		
	High	Low	Cash Distribution	High	Low	Cash Distribution	High	Low	Cash Distribution
December 31,.....	\$21.75	\$14.50	\$0.55	\$23.38	\$20.50	\$0.55	\$23.88	\$21.75	\$0.55
March 31,.....	19.88(a)	17.00(a)	--	24.75	21.38	0.55	24.63	20.75	0.55
June 30,.....	--	--	--	23.00	20.50	0.55	21.88	19.00	0.55
September 30,.....	--	--	--	22.38	20.13	0.55	23.50	21.00	0.55

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(a) Through February 8, 1999.

On August 13, 1998, the last full trading day prior to the public announcement of the proposed transaction, the closing sales price of the common units was \$21.06 on the New York Stock Exchange. On February 8, 1999, the closing sales price of the common units was \$18.25.

Subordinated Units. There is no trading market for Star Gas Partners' 2,396,078 subordinated units, all of which are held by Star Gas Corporation.

Senior Subordinated Units. There are no senior subordinated units outstanding as of the date of this proxy statement.

Junior Subordinated Units. There are no junior subordinated units outstanding as of the date of this proxy statement.

Petro Capital Stock

Class A Common Stock. Shares of Class A common stock are listed and traded on the Nasdaq National Market under the symbol "HEAT." The following table shows the last reported high and low sale prices per share of Class A common stock and dividends declared on shares of Class A common stock for the periods indicated. For the fiscal quarter ended March 31, 1998, Petro declared a dividend of \$.075 per share of Class A common stock which was paid on January 2, 1998 to holders of record on December 15, 1997. On February 24, 1998, Petro

announced that it would suspend its regularly scheduled quarterly common stock dividend and that it did not expect to pay common stock dividends for the remainder of the year. In arriving at this decision, the Petro board considered the impact of unusually warm winter weather on its earnings and cash flow, as well as a variety of other factors.

Fiscal Quarter Ended	1998			1997			1996		
	High	Low	Dividends	High	Low	Dividends	High	Low	Dividends
March 31,.....	\$ 3	\$1 7/16	\$0.075	\$6 3/4	\$3 3/8	\$0.075	\$8 1/4	\$6 1/2	\$0.15
June 30,.....	2 1/16	1 1/2	--	3 7/8	2 1/2	0.075	7 3/4	6 1/2	0.15
September 30,.....	2 1/16	1 5/16	--	3 1/2	2 5/8	0.075	7 3/4	6 1/4	0.15
December 31,.....	1 29/32	14/16	--	3 1/2	2 1/8	0.075	7 3/4	5 5/8	0.15

On August 13, 1998, the last full trading day prior to the public announcement of the proposed transaction, the closing sales price of the Class A common stock was \$1.875 on the Nasdaq National Market. The high and low sales prices of the Class A common stock for the period from January 1, 1999 through February 8, 1999 was \$ and \$ . The last sale price of the Class A common stock on February 8, 1999 was \$1.00 per share. As of January 29, 1999, Petro had 198 holders of record of Class A common stock.

Class C Common Stock. There is no established trading market for Class C common stock. As of January 29, 1999, Petro had 24 holders of record of Class C common stock.

Public Preferred Stock. There is no established trading market for the 12 7/8% preferred stock. As of January 29, 1999, Petro had holders of record of 12 7/8% preferred stock.

Private Preferred Stock. There is no established trading market for the 1989 preferred stock. As of January 29, 1999, Petro had holders of record of the 1989 preferred stock.

Junior Convertible Preferred Stock. There is no established trading market for the junior convertible preferred stock. As of January 29, 1999, Petro had holders of record of junior convertible preferred stock.

Comparative Per Share/Per Unit Information (Unaudited)

The following table describes, for units of limited partner interests of Star Gas Partners and shares of Petro Class A common stock, historical, pro forma and pro forma equivalent per unit financial information for the latest fiscal years of Star Gas Partners and Petro. The pro forma data do not purport to be indicative of the results of future operations or the results that would have occurred had the transaction been completed on October 1, 1997. This information should be read in conjunction with and is qualified in its entirety by the financial statements and accompanying notes of Star Gas Partners and Petro included in the documents described under "Incorporation of Certain Documents By Reference" and the pro forma combined financial statements and accompanying discussion and notes set forth under "Unaudited Pro Forma Condensed Consolidated Financial Information."

Historical Star Gas Partners per unit of limited partner interests for fiscal year ended September 30, 1998	Pro Forma Star Gas Partners per unit of limited partner interests for fiscal year ended September 30, 1998	Historical Petro per share of common stock for fiscal year ended December 31, 1997	Pro Forma Equivalent per unit of limited partner interests for fiscal year ended September 30, 1998
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Net Income.....	\$ (0.16)	\$ (0.67)	\$ (1.06)	\$ (0.08)
Cash Distributions.....	\$ 2.20	\$ 2.30	\$ 0.30	\$ 0.28
Book Value.....	\$ 8.98 (a)	\$14.57 (a)	\$ (6.76) (b)	\$ 1.79 (b)

(a) As of September 30, 1998.  
(b) As of December 31, 1997.

FEDERAL INCOME TAX CONSIDERATIONS

This section is a summary of material tax considerations that may be relevant to prospective Star Gas Partners unitholders and, to the extent described below under "Legal Opinions and Advice," expresses the opinion of Andrews & Kurth L.L.P., special counsel to the general partner and Star Gas Partners, insofar as it relates to matters of law and legal conclusions. This section is based upon current provisions of the Code, current and proposed regulations and current administrative rulings and court decisions, all of which are subject to change with and without retroactive effect. Later changes in these authorities may cause the tax consequences to vary substantially from the consequences described below. Unless the context otherwise requires, references in this section to Star Gas Partners are references to both Star Gas Partners and Star Gas Propane. In addition, unless otherwise noted, the following discussion is from Star Gas Partners' perspective and all references to "we," "us" and "our" are to Star Gas Partners.

No attempt has been made in the following discussion to comment on all federal income tax matters affecting Star Gas Partners or the Star Gas Partners unitholders. Moreover, the discussion focuses on Star Gas Partners unitholders who are individual citizens or residents of the United States and has only limited application to corporations, estates, trusts, non-resident aliens or other unitholders subject to specialized tax treatment, such as tax-exempt institutions, foreign persons, individual retirement accounts, REITs or mutual funds. Accordingly, each prospective Star Gas Partners unitholder should consult, and should depend on, his own tax advisor in analyzing the federal, state, local and foreign tax consequences peculiar to him of the ownership or disposition of units.

Tax Consequences of the Merger

The merger will be a taxable transaction to the Petro common stockholders generally resulting in gain or loss to each holder in an amount equal to the difference between the value of the senior subordinated units received by him and the federal income tax basis he has in the shares exchanged for senior subordinated units. The gain or loss will be capital gain or loss if the stock is held by the Petro common stockholder as a capital asset and will be long-term gain or loss if such stock has been held for more than one year. Long-term capital gain will generally be taxed at a maximum rate of 20% for individuals. Capital losses can be deducted against capital gains and thereafter against ordinary income to the extent of \$3,000 per year for individuals with any unused capital loss being carried forward indefinitely. Net capital gain of foreign holders of Petro common stock should generally not be subject to United States federal income tax. Petro common stockholders participating in the merger will have a basis in their senior subordinated units equal to the fair market value of those units at the time of the merger and their holding period will begin on the day after the merger. Counsel has not rendered any opinion on these matters.

The merger will also result in gain to Petro equal to the excess of the value of the Star Gas Partners senior subordinated units distributed to the Petro common stockholders in the merger and any debt relief over the federal income tax basis of those units to Petro. Although it is expected by Petro that this gain will generally be offset by Petro's net operating losses, the net operating losses are subject to challenge by the IRS. Petro and its affiliates do not anticipate that Petro or its affiliates will pay significant federal income tax at the outset; however, over time more federal income tax will be paid by Petro and its affiliates. Petro and its affiliates' ability to reduce income for federal income tax



purposes is dependent on depreciation deductions and interest deductions on certain debt, all of which is subject to scrutiny by the IRS. Counsel has not rendered any opinion on these matters.

#### Tax Consequences of Unit Ownership

Legal Opinions and Advice. Counsel is of the opinion that, based on the representations and subject to the qualifications in the detailed discussion that follows, for federal income tax purposes

- (1) Star Gas Partners and Star Gas Propane have been and will each be treated as a partnership and
- (2) owners of units, with certain exceptions, as described in "Limited Partner Status" below, will be treated as partners of Star Gas Partners, but not Star Gas Propane.

In addition, all statements as to matters of law and legal conclusions contained in this section, unless otherwise noted, reflect the opinion of counsel.

No ruling has been or will be requested from the IRS regarding the classification of Star Gas Partners as a partnership for federal income tax purposes, whether Star Gas Partners' operations generate "qualifying income" under Section 7704 of the Code or any other matter affecting Star Gas Partners or prospective Star Gas Partners unitholders. An opinion of counsel represents only that counsel's best legal judgment and does not bind the IRS or the courts. Thus, no assurance can be provided that the opinions and statements made here would be sustained by a court if contested by the IRS. Any contest of this sort with the IRS may materially and adversely impact the market for the units and the prices at which units trade. In addition, the costs of any contest with the IRS will be borne directly or indirectly by the Star Gas Partners unitholders and the general partner. Furthermore, no assurance can be given that the treatment of Star Gas Partners or an investment in Star Gas Partners will not be significantly modified by future legislative or administrative changes or court decisions. Any modifications may or may not be retroactively applied.

For the reasons described below, counsel has not rendered an opinion on the following specific federal income tax issues:

- (1) the treatment of a Star Gas Partners unitholder whose units are loaned to a short seller to cover a short sale of units (see "--Tax Treatment of Operations--Treatment of Short Sales"),
- (2) whether a Star Gas Partners unitholder acquiring units in separate transactions must maintain a single aggregate adjusted tax basis in his units (see "--Disposition of Units--Recognition of Gain or Loss"),
- (3) whether Star Gas Partners' monthly convention for allocating taxable income and losses is permitted by existing Treasury Regulations (see "--Disposition of Units--Allocations Between Transferors and Transferees"),
- (4) whether Star Gas Partners' method for depreciating Section 743 adjustments is sustainable (see "--Tax Treatment of Operations--Section 754 Election") and
- (5) whether the allocations of recapture income contained in the amended and restated partnership agreement will be respected (see "--Allocation of Star Gas Partners' Income, Gain, Loss and Deduction").

Tax Rate. The top marginal income tax rate for individuals for 1998 is 39.6%. Net capital gains of an individual are generally subject to a maximum 20% tax rate if the asset was held for more than 12 months at the time of disposition.

Star Gas Partners Status as a Partnership. A partnership is not a taxable entity and incurs no federal income tax liability. Instead, each partner is required to take into account his allocable share of items of income, gain,

loss and deduction of the partnership in computing his federal income tax liability, regardless of whether cash distributions are made. Distributions by a partnership to a partner are generally not taxable unless the amount of cash distributed is in excess of the partner's adjusted basis in his partnership interest.

No ruling has been or will be sought from the IRS as to the status of Star Gas Partners or Star Gas Propane as a partnership for federal income tax purposes. Instead, Star Gas Partners has relied on the opinion of counsel that, based upon the Code, its regulations, published revenue rulings and court decisions and representations described below, Star Gas Partners and Star Gas Propane have been and will each be classified as a partnership for federal income tax purposes.

In rendering its opinion, counsel has relied on certain factual representations made by Star Gas Partners and the general partner. Such factual matters for taxable years beginning before December 31, 1996 are as follows:

- (a) For Star Gas Partners and Star Gas Propane, the general partner, at all times while acting as general partner of the relevant partnership, had a net worth, computed on a fair market value basis, excluding its interest in Star Gas Partners and Star Gas Propane and any notes or receivables due from such partnerships, equal to at least \$6.0 million;
- (b) Star Gas Partners has been operated in accordance with (1) all applicable partnership statutes, (2) the amended and restated partnership agreement and (3) its description in this proxy statement;
- (c) Star Gas Propane has been operated in accordance with (1) all applicable partnership statutes, (2) the limited partnership agreement for Star Gas Propane and (3) its description in this proxy statement;
- (d) The general partner has at all times acted independently of the limited partners; and
- (e) For each taxable year, less than 10% of the gross income of Star Gas Partners has been derived from sources other than (1) the exploration, development, production, processing, refining, transportation or marketing of any mineral or natural resource, including oil, gas or products thereof, or (2) other items of qualifying income within the meaning of Section 7704(d) of the Code.

Such factual matters for taxable years beginning after December 31, 1996 are as follows:

- (a) Neither Star Gas Partners nor Star Gas Propane has elected, or will elect, to be treated as an association or corporation;
- (b) Star Gas Partners has been and will be operated in accordance with (1) all applicable partnership statutes, (2) the partnership agreement of Star Gas Partners as it may be amended or restated, and (3) its description in this proxy statement;

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- (c) Star Gas Propane has been and will be operated in accordance with (1) all applicable partnership statutes, (2) the Star Gas Propane partnership agreement, and (3) its description in this proxy statement; and
- (d) For each taxable year, more than 90% of the gross income of Star Gas Partners has been and will be (1) derived from the exploration, development, production, processing, refining, transportation or marketing of any mineral or natural resource, including oil, gas or products thereof or (2) other items of "qualifying income" within the meaning of Section 7704(d) of the Code.

Section 7704 of the Code provides that publicly-traded partnerships will, as a general rule, be taxed as corporations. However, an exception (the "Qualifying Income Exception") exists with respect to publicly-traded

partnerships, 90% or more of whose gross income for every taxable year consists of "qualifying income." Qualifying income includes interest from other than a financial business, dividends and income and gains from the transportation and marketing of crude oil, natural gas, and products thereof, including the retail and wholesale marketing of propane and the transportation of propane and natural gas liquids. Based upon the representations of Star Gas Partners and the General Partner and a review of the applicable legal authorities, counsel is of the opinion that least 90% of Star Gas Partners' gross income will constitute qualifying income. Star Gas Partners estimates that less than 60% of its gross income for each taxable year will not constitute qualifying income.

If Star Gas Partners fails to meet the Qualifying Income Exception, other than a failure that is determined by the IRS to be inadvertent and is cured within a reasonable time after discovery, Star Gas Partners will be treated as if it had transferred all of its assets (subject to liabilities) to a newly formed corporation, on the first day of the year in which it fails to meet the Qualifying Income Exception, in return for stock in that corporation, and then distributed that stock to the partners in liquidation of their interests in Star Gas Partners. This contribution and liquidation should be tax-free to Star Gas Partners unitholders and Star Gas Partners, so long as Star Gas Partners, at that time, does not have liabilities in excess of the tax basis of its assets. Thereafter, Star Gas Partners would be treated as a corporation for federal income tax purposes.

If Star Gas Partners or Star Gas Propane were treated as an association taxable as a corporation in any taxable year, either as a result of a failure to meet the Qualifying Income Exception or otherwise, its items of income, gain, loss and deduction would be reflected only on its tax return rather than being passed through to the Star Gas Partners unitholders, and its net income would be taxed to Star Gas Partners or Star Gas Propane at corporate rates. In addition, any distribution made to a Star Gas Partners unitholder would be treated as either taxable dividend income, to the extent of Star Gas Partners' current or accumulated earnings and profits, or, in the absence of earnings and profits, a nontaxable return of capital, to the extent of the unitholder's tax basis in his units, or taxable capital gain, after the unitholder's tax basis in the units is reduced to zero. Accordingly, treatment of either Star Gas Partners or Star Gas Propane as an association taxable as a corporation would result in a material reduction in a Star Gas Partners unitholder's cash flow and after-tax return and thus would likely result in a substantial reduction of the value of the units.

The discussion below is based on the assumption that Star Gas Partners will be classified as a partnership for federal income tax purposes.

Limited Partner Status. Star Gas Partners unitholders who have become limited partners of Star Gas Partners will be treated as partners of Star Gas Partners for federal income tax purposes. Counsel is of the opinion that (a) assignees who have executed and delivered transfer applications, and are awaiting admission as limited partners and (b) Star Gas Partners unitholders whose units are held in street name or by a nominee and who have the right to direct the nominee in the exercise of all substantive rights attendant to the ownership of their units will be treated as partners of Star Gas Partners for federal income tax purposes. As there is no direct authority addressing assignees of units who are entitled to execute and deliver transfer applications and thereby become entitled to direct the exercise of attendant rights, but who fail to execute and deliver transfer applications, Andrews & Kurth's opinion does not extend to these persons. Furthermore, a purchaser or other transferee of units who does not execute and deliver a transfer application may not receive some federal income tax information or reports furnished to record holders of units unless the units are held in a nominee or street name account and the nominee or broker has executed and delivered a transfer application for such units.

A beneficial owner of units whose units have been transferred to a short seller to complete a short sale would appear to lose his status as a partner with respect to such units for federal income tax purposes. See "--Tax Treatment of Operations--Treatment of Short Sales."

Income, gain, deductions or losses would not appear to be reportable by a Star Gas Partners unitholder who is not a partner for federal income tax purposes, and any cash distributions received by such a Star Gas Partners unitholder would therefore be fully taxable as ordinary income. These holders

should consult their own tax advisors with respect to their status as partners in Star Gas Partners for federal income tax purposes.

Flow-through of Taxable Income. No federal income tax will be paid by Star Gas Partners. Instead, each Star Gas Partners unitholder will be required to report on his income tax return his allocable share of the income, gains, losses and deductions of Star Gas Partners without regard to whether corresponding cash distributions are received by that unitholder. Consequently, a Star Gas Partners unitholder may be allocated income from Star Gas Partners even if he has not received a cash distribution. Each Star Gas Partners unitholder will be required to include in income his allocable share of Star Gas Partners income, gain, loss and deduction for the taxable year of Star Gas Partners ending with or within the taxable year of the Star Gas Partners unitholder.

Although it is not expected that Petro and its affiliates will pay significant federal income tax for several years, Petro and its affiliates expect to generate earnings and profits during that time making a portion of the distributions from them to Star Gas Partners taxable dividend income to Star Gas Partners and thus, to the Star Gas Partners unitholders. Such dividend income cannot be offset by past or future losses generated by Star Gas Partners' propane activities.

Treatment of Partnership Distributions. Distributions by Star Gas Partners to a Star Gas Partners unitholder generally will not be taxable to him for federal income tax purposes to the extent of the tax basis he has in his units immediately before the distribution. Our cash distributions in

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excess of a Star Gas Partners unitholder's tax basis generally will be considered to be gain from the sale or exchange of the units, taxable in accordance with the rules described under "Disposition of Units" below. Any reduction in a Star Gas Partners unitholder's share of our liabilities for which no partner, including the general partner, bears the economic risk of loss, known as "nonrecourse liabilities", will be treated as a distribution of cash to that unitholder. To the extent Star Gas Partners distributions cause a Star Gas Partners unitholder's "at risk" amount to be less than zero at the end of any taxable year, he must recapture any losses deducted in previous years. See "--Limitations on Deductibility of Star Gas Partners Losses."

A decrease in a Star Gas Partners unitholder's percentage interest in us because of our issuance of additional units will decrease his share of our nonrecourse liabilities, and will result in a corresponding deemed distribution of cash. A non-pro rata distribution of money or property may result in ordinary income to a Star Gas Partners unitholder, regardless of the tax basis he has in his units, if such distribution reduces his share of our "unrealized receivables", including depreciation recapture, and/or substantially appreciated "inventory items", both as defined in Section 751 of the Code, and collectively, "Section 751 Assets". To that extent, he will be treated as having received a distribution of his proportionate share of the Section 751 Assets and having exchanged those assets with us in return for the non-pro rata portion of the actual distribution made to him. This latter deemed exchange will generally result in a Star Gas Partners unitholder's realization of ordinary income under Section 751(b) of the Code. That income will equal the excess of (1) the non-pro rata portion of that distribution over (2) the Star Gas Partners unitholder's tax basis for the share of such Section 751 Assets deemed relinquished in the exchange.

Ratio of Taxable Income to Distributions. We estimate that a holder who acquires common units in the transaction and holds those units through December 31, 2001, will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be less than 20% of the cash distributed for that period. Star Gas Partners further estimates that for taxable years after the taxable year ending December 31, 2001, the taxable income allocable to a Star Gas Partners unitholder will constitute a significantly higher percentage of cash distributed to him. These estimates are based upon the assumption that gross income from operations will approximate the amount required to make the minimum quarterly distribution on all units and other assumptions regarding capital expenditures, cash flow and anticipated cash distributions. These estimates and assumptions are subject to, among other things, numerous business, economic, regulatory, competitive and political uncertainties beyond our control. Further, the estimates are based on current tax law and tax reporting positions that we have adopted or intend to adopt and

with which the IRS could disagree. Accordingly, no assurance can be given that these estimates will prove to be correct. The actual percentage of distributions that will constitute taxable income could be higher or lower, and any differences could be material and could materially affect the value of the units.

**Basis of Units.** A Star Gas Partners unitholder will generally have an initial tax basis for his units equal to the fair market value of the units received. His basis will be increased by his share of our income and by any increases in his share of our nonrecourse liabilities. That basis will be decreased, but not below zero, by distributions from Star Gas Partners and by the Star Gas Partners unitholder's share of Star Gas Partners' losses, by any decreases in his share of our nonrecourse liabilities and by his share of our expenditures that are not deductible in computing taxable income and are not required to be capitalized. A limited partner will have no share of our debt that is

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recourse to the general partner, but will have a share, generally based on his share of profits, of our nonrecourse liabilities. See "--Disposition of Units--Recognition of Gain or Loss."

**Limitations on Deductibility of Star Gas Partners Losses.** The deduction by a Star Gas Partners unitholder of his share of our losses will be limited to the tax basis in his units and, in the case of an individual Star Gas Partners unitholder or a corporate unitholder, if more than 50% of the value of its stock is owned directly or indirectly by five or fewer individuals or tax-exempt organizations, to the amount for which the Star Gas Partners unitholder is considered to be "at risk" regarding our activities, if that is less than his tax basis. A Star Gas Partners unitholder must recapture losses deducted in previous years to the extent that Star Gas Partners distributions made to him cause his "at risk" amount to be less than zero at the end of any taxable year. Losses disallowed to a Star Gas Partners unitholder or recaptured as a result of these limitations will carry forward and will be allowable to the extent that his tax basis or "at risk" amount, whichever is the limiting factor, is subsequently increased. Upon the taxable disposition of a unit, any gain recognized by a Star Gas Partners unitholder can be offset by losses that were previously suspended by the at risk limitation but may not be offset by losses suspended by the basis limitation. Any excess loss above such gain previously suspended by the at risk or basis limitations is no longer utilizable.

In general, a Star Gas Partners unitholder will be at risk to the extent of the tax basis of his units, excluding any portion of that basis attributable to his share of our nonrecourse liabilities, reduced by any amount of money he borrows to acquire or hold his units, if the lender of such borrowed funds owns an interest in us, is related to the Star Gas Partners unitholder or can look only to the units for repayment. A Star Gas Partners unitholder's at risk amount will increase or decrease as the tax basis of his units increases or decreases, other than tax basis increases or decreases attributable to increases or decreases in his share of our nonrecourse liabilities.

The passive loss limitations generally provide that individuals, estates, trusts and some closely held corporations and personal service corporations can deduct losses from passive activities, which are generally, activities in which the taxpayer does not materially participate, only to the extent of the taxpayer's income from those passive activities. The passive loss limitations are applied separately for each publicly-traded partnership. Consequently, any passive losses we generate will only be available to offset our passive income generated in the future and will not be available to offset income from other passive activities or investments, including other publicly-traded companies, interest and dividend income generated by us, such as dividends from Petro and its affiliates, or salary or active business income. Passive losses that are not deductible because they exceed a Star Gas Partners unitholder's income generated by us may be deducted in full when he disposes of his entire investment in us in a fully taxable transaction with an unrelated party. The passive activity loss rules are applied after other applicable limitations on deductions such as the at risk rules and the basis limitation.

A Star Gas Partners unitholder's share of our net income may be offset by any suspended passive losses, but it may not be offset by any other current or carryover losses from other passive activities, including those attributable to other publicly-traded companies. The IRS has announced that Treasury Regulations will be issued that characterize net passive income from a publicly-traded partnership as investment income for purposes of the

limitations on the deductibility of investment interest.

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Limitations on Interest Deductions. The deductibility of a non-corporate taxpayer's "investment interest expense" is generally limited to the amount of such taxpayer's "net investment income." As noted, a Star Gas Partners unitholder's share of our net passive income will be treated as investment income for this purpose. In addition, the Star Gas Partners unitholder's share of our portfolio income will be treated as investment income. Investment interest expense includes:

- (1) interest on indebtedness properly allocable to property held for investment,
- (2) our interest expense attributed to portfolio income, and
- (3) the portion of interest expense incurred to purchase or carry an interest in a passive activity to the extent attributable to portfolio income.

The computation of a Star Gas Partners unitholder's investment interest expense will take into account interest on any margin account borrowing or other loan incurred to purchase or carry a unit. Net investment income includes gross income from property held for investment and amounts treated as portfolio income under the passive loss rules, less deductible expenses, other than interest, directly connected with the production of investment income, but generally does not include gains attributable to the disposition of property held for investment.

#### Allocation of Star Gas Partners Income, Gain, Loss and Deduction

In general, if we have a net profit, our items of income, gain, loss and deduction will be allocated among the general partner and the Star Gas Partners unitholders in accordance with their percentage interests in us. At any time that distributions are made to the Star Gas Partners common units and not to the Star Gas Partners senior subordinated units or junior subordinated units, or that incentive distributions are made to holders of Star Gas Partners senior subordinated units, junior subordinated units or general partner units or to holders of Star Gas Partners senior subordinated units and not to junior subordinated units or general partner units, gross income will be allocated to the recipients to the extent of those distributions. If we have a net loss, our items of income, gain, loss and deduction will generally be allocated first, to the general partner and the Star Gas Partners unitholders in accordance with their percentage interests to the extent of their positive capital accounts (as maintained under our amended and restated partnership agreement) and, second, to the general partner.

As required by Section 704(c) of the Code and as permitted by its Regulations, some items of our income, deduction, gain and loss will be allocated in a manner to account for the difference between the tax basis and fair market value of property that is contributed or deemed contributed to us by each of the partners ("Contributed Property"). The effect of these allocations to a Star Gas Partners unitholder will be essentially the same as if the tax basis of the Contributed Property were equal to its fair market value at the time of contribution or deemed contribution. In addition, specified items of recapture income will be allocated to the extent possible to the partner who was allocated the deduction giving rise to the treatment of that gain as recapture income in order to minimize the recognition of ordinary income by some Star Gas Partners unitholders. Finally, although we do not expect that our operations will result in the creation of negative capital accounts, if negative capital accounts nevertheless result, items of our income and gain will be allocated in an amount and manner sufficient to eliminate the negative balance as quickly as possible.

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Regulations provide that an allocation of items of Star Gas Partners income, gain, loss or deduction, other than an allocation required by Section 704(c) of the Code to eliminate the difference between a partner's "book" capital account, credited with the fair market value of Contributed Property, and "tax" capital account, credited with the tax basis of Contributed Property, (the "Book-Tax Disparity"), will generally be given effect for federal income tax

purposes in determining a partner's distributive share of an item of income, gain, loss or deduction only if the allocation has substantial economic effect. In any other case, a partner's distributive share of an item will be determined on the basis of the partner's interest in Star Gas Partners, which will be determined by taking into account all the facts and circumstances, including the partner's relative contributions to Star Gas Partners, the interests of the partners in economic profits and losses, the interest of the partners in cash flow and other nonliquidating distributions and rights of the partners to distributions of capital upon liquidation.

Counsel is of the opinion that allocations under our amended and restated partnership agreement, with the exception of the allocation of recapture income discussed above, will be given effect for federal income tax purposes in determining a partner's distributive share of an item of income, gain, loss or deduction.

#### Tax Treatment of Operations

Accounting Method and Taxable Year. We use the year ending December 31 as our taxable year and we have adopted the accrual method of accounting for federal income tax purposes. Each Star Gas Partners unitholder will be required to include in income his allocable share of our income, gain, loss and deduction for our taxable year ending within or with his taxable year. In addition, a Star Gas Partners unitholder who has a taxable year ending on a date other than December 31 and who disposes of all of his units following the close of our taxable year but before the close of his taxable year must include his allocable share of our income, gain, loss and deduction in income for his taxable year, with the result that he will be required to report in income for his taxable year his share of more than one year of our income, gain, loss and deduction. See "--Disposition of Units--Allocations Between Transferors and Transferees."

Initial Tax Basis, Depreciation and Amortization. The tax basis of our assets will be used for purposes of computing depreciation and cost recovery deductions and, ultimately, gain or loss on the disposition of such assets. The federal income tax burden associated with the difference between the fair market value of property contributed and the tax basis established for such property will be borne by the contributors of such property. See "--Allocation of Our Income, Gain, Loss and Deduction."

To the extent allowable, we may elect to use the depreciation and cost recovery methods that will result in the largest deductions being taken in the early years after assets are placed in service. We will not be entitled to any amortization deductions for goodwill conveyed to us on formation. Property subsequently acquired or constructed by us may be depreciated using accelerated methods permitted by the Code.

If we dispose of depreciable property by sale, foreclosure, or otherwise, all or a portion of any gain, determined by reference to the amount of depreciation previously deducted and the nature of the property, may be subject to the recapture rules and taxed as ordinary income rather than capital gain. Similarly, a partner who has taken cost recovery or depreciation deductions for our property

may be required to recapture such deductions as ordinary income upon a sale of his interest in us. See "--Allocation of Star Gas Partners' Income, Gain, Loss and Deduction" and "--Disposition of Units--Recognition of Gain or Loss."

Section 754 Election. We have made the election permitted by Section 754 of the Code, which generally permits us to adjust a unit purchaser's tax basis in our assets ("inside basis") under Section 743(b) of the Code to reflect his purchase price. That election is irrevocable without the consent of the IRS. The Section 743(b) adjustment belongs to the purchaser and not to other Star Gas Partners unitholders. For purposes of this discussion, a Star Gas Partners unitholder's inside basis in our assets will be considered to have two components: (1) his share of our tax basis in such assets ("Basis") and (2) his Section 743(b) adjustment to that basis.

Proposed Treasury regulations under Section 743 of the Code would require a portion of the Section 743(b) adjustment attributable to recovery property to be depreciated over the remaining cost recovery period for the Section 704(c)

built-in gain. Nevertheless, the proposed regulations under Section 197 indicate that the Section 743(b) adjustment attributable to an amortizable Section 197 intangible should be treated as a newly-acquired asset placed in service in the month when the purchaser acquires the unit. Under Treasury Regulation Section 1.167(c)-1(a)(6), a Section 743(b) adjustment attributable to property subject to depreciation under Section 167 of the Code rather than cost recovery deductions under Section 168 is generally required to be depreciated using either the straight-line method or the 150% declining balance method. Although the proposed regulations under Section 743 will likely eliminate many of the problems if finalized in their current form, the depreciation and amortization methods and useful lives associated with the Section 743(b) adjustment may differ from the methods and useful lives generally used to depreciate the basis in these properties. Under our amended and restated partnership agreement, the general partner is authorized to adopt a convention to preserve the uniformity of units even if that convention is not consistent with specified Treasury Regulations. See "--Uniformity of Units."

Although counsel is unable to opine as to the validity of an approach of this type, we intend to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property, to the extent of any unamortized Book-Tax Disparity, using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the Basis of such property, or treat that portion as non-amortizable to the extent attributable to property the Basis of which is not amortizable. This method is consistent with the proposed regulations under Section 743 but is arguably inconsistent with Treasury Regulation Section 1.167(c)-1(a)(6) and Proposed Treasury Regulation Section 1.197-2(g)(3), neither of which is expected to directly apply to a material portion of Star Gas Partners' assets. To the extent this Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized Book-Tax Disparity, we will apply the rules described in the Regulations and legislative history. If we determine that this position cannot reasonably be taken, we may adopt a depreciation or amortization convention under which all purchasers acquiring units in the same month would receive depreciation or amortization, whether attributable to Basis or Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in our assets. Such an aggregate approach may result in lower annual depreciation or amortization deductions than would otherwise be allowable to specified Star Gas Partners unitholders. See "--Uniformity of Units."

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The allocation of the Section 743(b) adjustment must be made in accordance with the Code. The IRS may seek to reallocate some or all of any Section 743(b) adjustment not so allocated by us to goodwill which, as an intangible asset, would be amortizable over a longer period of time than our tangible assets.

A Section 754 election is advantageous if the transferee's tax basis in his units is higher than those units' share of the aggregate tax basis to us of our assets immediately prior to the transfer. In such a case, as a result of the election, the transferee would have a higher tax basis in his share of our assets for purposes of calculating, among other items, his depreciation and depletion deductions and his share of any gain or loss on a sale of Star Gas Partners' assets. Conversely, a Section 754 election is disadvantageous if the transferee's tax basis in his units is lower than those unit's share of the aggregate tax basis of Star Gas Partners' assets immediately prior to the transfer. Thus, the fair market value of the units may be affected either favorably or adversely by the election.

The calculations involved in the Section 754 election are complex and we will make them on the basis of assumptions as to the value of our assets and other matters. We cannot assure that our determinations will not be successfully challenged by the IRS and that the deductions resulting from them will not be reduced or disallowed altogether. Should the IRS require a different basis adjustment to be made, and should, in our opinion, the expense of compliance exceed the benefit of the election, we may seek permission from the IRS to revoke our Section 754 election. If such permission is granted, a subsequent purchaser of Star Gas Partners units may be allocated more income than he would have been allocated had the election not been revoked.

Alternative Minimum Tax. Each Star Gas Partners unitholder will be required to take into account his distributive share of any items of our income, gain,



deduction, or loss for purposes of the alternative minimum tax. The minimum tax rate for non-corporate taxpayers is 26% on the first \$175,000 of alternative minimum taxable income in excess of the exemption amount and 28% on any additional alternative minimum taxable income. Prospective Star Gas Partners unitholders should consult with their tax advisors as to the impact of an investment in units on their liability for the alternative minimum tax.

Valuation of Star Gas Partners Property and Basis of Properties. The federal income tax consequences of the ownership and disposition of units will depend in part on our estimates of the relative fair market values, and determinations of the initial tax bases, of our assets. Although we may from time to time consult with professional appraisers regarding valuation matters, we will make many of the relative fair market value estimates. These estimates and determinations of basis are subject to challenge and will not be binding on the IRS or the courts. If the estimates of fair market value or determinations of basis are later found to be incorrect, the character and amount of items of income, gain, loss or deductions previously reported by Star Gas Partners unitholders might change, and Star Gas Partners unitholders might be required to adjust their tax liability for prior years.

Treatment of Short Sales. A Star Gas Partners unitholder whose units are loaned to a "short seller" to cover a short sale of units may be considered as having disposed of ownership of those units. If so, he would no longer be a partner for those units during the period of the loan and may

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recognize gain or loss from the disposition. As a result, during this period, any of our income, gain, deduction or loss for those units would not be reportable by the Star Gas Partners unitholder, any cash distributions received by the unitholder for those units would be fully taxable and all of these distributions would appear to be treated as ordinary income. Star Gas Partners unitholders desiring to assure their status as partners and avoid the risk of gain recognition should modify any applicable brokerage account agreements to prohibit their brokers from borrowing their units. The IRS has announced that it is actively studying issues relating to the tax treatment of short sales of partnership interests. See also "--Disposition of Units--Recognition of Gain or Loss."

#### Disposition of Units

Recognition of Gain or Loss. Gain or loss will be recognized on a sale of units equal to the difference between the amount realized and the Star Gas Partners unitholder's tax basis in the units that were sold. The amount realized by the Star Gas Partners unitholder will be measured by the sum of the cash or the fair market value of other property received plus his share of our nonrecourse liabilities. Because the amount realized includes a unitholder's share of our nonrecourse liabilities, the gain recognized on the sale of units could result in a tax liability in excess of any cash received from such sale.

Prior distributions from us in excess of cumulative net taxable income for a unit that decreased a Star Gas Partners unitholder's tax basis in that unit will, in effect, become taxable income if the unit is sold at a price greater than the unitholder's tax basis in that unit, even if the price is less than his original cost.

Should the IRS successfully contest our convention to amortize only a portion of the Section 743(b) adjustment, described under "--Tax Treatment of Operations--Section 754 Election", attributable to an amortizable Section 197 intangible after a sale by the general partner of units, a Star Gas Partners unitholder could realize additional gain from the sale of units than if that convention had been respected. In that case, the unitholder may have been entitled to additional deductions against income in prior years but may be unable to claim them, resulting in greater overall taxable income allocable to him than appropriate. Counsel is unable to opine as to the validity of the convention but believes such a contest by the IRS is unlikely because a successful contest could result in substantial additional deductions to other Star Gas Partners unitholders.

Gain or loss recognized by a Star Gas Partners unitholder, other than a "dealer" in units, on the sale or exchange of a unit held for more than one year will generally be taxable as capital gain or loss. Capital gain recognized on the sale of units held more than 12 months will generally be taxed a maximum rate of 20%. A portion of this gain or loss, which could be substantial,

however, will be separately computed and taxed as ordinary income or loss under Section 751 of the Code to the extent attributable to assets giving rise to depreciation recapture or other "unrealized receivables" or to "inventory items" owned by us. The term "unrealized receivables" includes potential recapture items, including depreciation recapture. Ordinary income attributable to unrealized receivables, inventory items and depreciation recapture may exceed net taxable gain realized upon the sale of the unit and may be recognized even if there is a net taxable loss realized on the sale of the unit. Thus, a Star Gas Partners unitholder may recognize both ordinary income and a capital loss upon a disposition of units. Net capital loss may offset no more than \$3,000 of ordinary income in the case of individuals and may only be used to offset capital gain in the case of corporations.

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The IRS has ruled that a partner who acquires interests in a partnership in separate transactions must combine those interests and maintain a single adjusted tax basis. Upon a sale or other disposition of less than all of such interests, a portion of that tax basis must be allocated to the interests sold using an "equitable apportionment" method. The ruling is unclear as to how the holding period of these interests is determined once they are combined. If this ruling is applicable to the holders of Star Gas Partners units, a Star Gas Partners unitholder will be unable to select high or low basis units to sell as would be the case with corporate stock. It is not clear whether the ruling applies to us, because, as is the case with corporate stock, interests in us are evidenced by separate certificates. Accordingly, counsel is unable to opine as to the effect this ruling will have on the Star Gas Partners unitholders. A Star Gas Partners unitholder considering the purchase of additional units or a sale of units purchased in separate transactions should consult his tax advisor as to the possible consequences of this ruling.

Specified provisions of the Code affect the taxation of certain financial products and securities, including partnership interests, by treating a taxpayer as having sold an "appreciated" partnership interest, one in which gain would be recognized if it were sold, assigned or terminated at its fair market value, if the taxpayer or related persons enter(s) into

- (1) a short sale,
- (2) an offsetting notional principal contract, or
- (3) a futures or forward contract for the partnership interest or substantially identical property.

Moreover, if a taxpayer has previously entered into a short sale, an offsetting notional principal contract or a futures or forward contract for a partnership interest, the taxpayer will be treated as having sold that position if the taxpayer or a related party then acquires the partnership interest or substantially identical property. The Secretary of Treasury is also authorized to issue regulations that treat a taxpayer who or that enters into transactions or positions that have substantially the same effect as the preceding transactions as having constructively sold the financial position.

**Allocations Between Transferors and Transferees.** In general, our taxable income and losses will be determined annually, will be prorated on a monthly basis and will be subsequently apportioned among the unitholders in proportion to the number of units owned by each of them as of the opening of the principal national securities exchange on which the units are then traded on the first business day of the month (the "Allocation Date"). However, gain or loss realized on a sale or other disposition of our assets other than in the ordinary course of business will be allocated among the unitholders on the Allocation Date in the month in which that gain or loss is recognized. As a result, a unitholder transferring units in the open market may be allocated income, gain, loss and deduction accrued after the date of transfer.

The use of this allocation method may not be permitted under existing Treasury Regulations. Accordingly, counsel is unable to opine on the validity of this method of allocating income and deductions between the transferors and the transferees of units. If this method is not allowed under the Treasury Regulations, or only applies to transfers of less than all of the unitholder's interest, our taxable income or losses might be reallocated among the unitholders. We are authorized to revise our method of allocation between transferors and transferees, as well as among partners whose interests otherwise vary during a taxable period, to conform to a method permitted under

future Treasury Regulations.

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A unitholder who owns units any time during a quarter and who disposes of these units prior to the record date set for a cash distribution for that quarter will be allocated items of our income, gain, loss and deductions attributable to that quarter but will not be entitled to receive that cash distribution.

**Notification Requirements.** A Star Gas Partners unitholder who sells or exchanges units is required to notify Star Gas Partners in writing of that sale or exchange within 30 days after the sale or exchange and in any event by no later than January 15 of the year following the calendar year in which the sale or exchange occurred. Star Gas Partners is required to notify the IRS of that transaction and to furnish certain information to the transferor and transferee. However, these reporting requirements do not apply to a sale by an individual who is a citizen of the United States and who effects the sale or exchange through a broker. Additionally, a transferor and a transferee of a unit will be required to furnish statements to the IRS, filed with their income tax returns for the taxable year in which the sale or exchange occurred, that describe the amount of the consideration received for the unit that is allocated to our goodwill or going concern value. Failure to satisfy these reporting obligations may lead to the imposition of substantial penalties.

**Constructive Termination.** Star Gas Partners and Star Gas Propane will be considered to have been terminated if there is a sale or exchange of 50% or more of the total interests in Star Gas Partners capital and profits within a 12-month period. A termination of Star Gas Partners will cause a termination of Star Gas Propane. A termination of Star Gas Partners will result in the closing of Star Gas Partners' taxable year for all Star Gas Partners unitholders. In the case of a Star Gas Partners unitholder reporting on a taxable year other than a fiscal year ending December 31, the closing of the tax year of Star Gas Partners may result in more than 12 months' taxable income or loss of Star Gas Partners being includable in his taxable income for the year of termination. Tax elections required to be made by Star Gas Partners, including a new election under Section 754 of the Code, must be made after a termination and a termination could result in a deferral of Star Gas Partners deductions for depreciation. A termination could also result in penalties if Star Gas Partners were unable to determine that the termination had occurred. Moreover, a termination might either accelerate the application of, or subject Star Gas Partners to, any tax legislation enacted before the termination.

**Entity-Level Collections.** If we are required or elect under applicable law to pay any federal, state or local income tax on behalf of any unitholder or any general partner or any former unitholder, Star Gas Partners is authorized to pay those taxes from our funds. That payment, if made, will be treated as a distribution of cash to the partner on whose behalf the payment was made. If the payment is made on behalf of a person whose identity cannot be determined, we are authorized to treat the payment as a distribution to current Star Gas Partners unitholders. Star Gas Partners is authorized to amend the amended and restated partnership agreement in the manner necessary to maintain uniformity of intrinsic tax characteristics of units and to adjust later distributions, so that after giving effect to these distributions, the priority and characterization of distributions otherwise applicable under the amended and restated partnership agreement is maintained as nearly as is practicable. Payments by Star Gas Partners as described above could give rise to an overpayment of tax on behalf of an individual partner in which event the partner could file a claim for credit or refund.

#### Uniformity of Units

Because Star Gas Partners cannot match transferors and transferees of units, uniformity of the economic and tax characteristics of the units to a purchaser of these units must be maintained. In the

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absence of uniformity, compliance with a number of federal income tax requirements, both statutory and regulatory, could be substantially diminished. A lack of uniformity can result from a literal application of Treasury Regulation Section 1.167(c)-1(a)(6) and Proposed Treasury Regulation Section

1.197-2(g)(3). Any non-uniformity could have a negative impact on the value of the units. See "--Tax Treatment of Operations--Section 754 Election."

We intend to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of contributed property or adjusted property, to the extent of any unamortized Book-Tax Disparity, using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the basis of such property, or treat that portion as nonamortizable, to the extent attributable to property the basis of which is not amortizable consistent with the proposed regulations under Section 743, but despite its inconsistency with Treasury Regulation Section 1.167(c)-1(a)(6) and Proposed Treasury Regulation Section 1.197-2(g)(3), neither of which is expected to directly apply to a material portion of the Partnership's assets. See "--Tax Treatment of Operations--Section 754 Election." To the extent such Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized Book-Tax Disparity, we will apply the rules described in the Regulations and legislative history. If we determine that such a position cannot reasonably be taken, we may adopt a depreciation and amortization convention under which all purchasers acquiring units in the same month would receive depreciation and amortization deductions, whether attributable to basis or Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in our property. If such an aggregate approach is adopted, it may result in lower annual depreciation and amortization deductions than would otherwise be allowable to certain unitholders and risk the loss of depreciation and amortization deductions not taken in the year that such deductions are otherwise allowable. This convention will not be adopted if we determine that the loss of depreciation and amortization deductions will have a material adverse effect on the unitholders. If Star Gas Partners chooses not to utilize this aggregate method, we may use any other reasonable depreciation and amortization convention to preserve the uniformity of the intrinsic tax characteristics of any units that would not have a material adverse effect on the unitholders. The IRS may challenge any method of depreciating the Section 743(b) adjustment described in this paragraph. If such a challenge were sustained, the uniformity of units might be affected, and the gain from the sale of units might be increased without the benefit of additional deductions. See "--Disposition of Units--Recognition of Gain or Loss."

Tax-exempt Organizations and Certain Other Investors. Ownership of units by employee benefit plans, other tax-exempt organizations, nonresident aliens, foreign corporations, other foreign persons and regulated investment companies raises issues unique to such persons and, as described below, may have substantially adverse tax consequences. Employee benefit plans and most other organizations that are exempt from federal income tax, including individual retirement accounts ("IRAs") and other retirement plans, are subject to federal income tax on unrelated business taxable income. Virtually all of the taxable income derived by such an organization from the ownership of a unit will be unrelated business taxable income and thus will be taxable to that unitholder.

A regulated investment company or "mutual fund" is required to derive 90% or more of its gross income from interest, dividends and gains from the sale of stocks or securities or foreign currency or certain related sources. It is not anticipated that any significant amount of our gross income will include that type of income at least in the next few years.

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Under current rules applicable to publicly-traded partnerships, we are required to withhold as taxes 39.6% of any cash distributions made to foreign Star Gas Partners unitholders. A foreign Star Gas Partners unitholder may claim a credit for those taxes. If that tax exceeds the taxes due from the foreign unitholder, he may claim a refund. Each foreign Star Gas Partners unitholder must obtain a taxpayer identification number from the IRS and submit that number to our transfer agent on a Form W-8 in order to obtain a credit for the taxes withheld. A change in applicable law may require Star Gas Partners to change these procedures. In addition, non-resident aliens and foreign corporations, trusts or estates that own units will be considered to be engaged in business in the United States on account of ownership of those units. As a consequence, they will be required to file federal tax returns for their share of our income, gain, loss or deduction and pay federal income tax at regular rates on any net income or gain.

Because a foreign corporation that owns units will be treated as engaged in a

United States trade or business, such a corporation may be subject to United States branch profits tax a rate of 30%, in addition to regular federal income tax, on its share of our income and gain, as adjusted for changes in the foreign corporation's "U.S. net equity", which are effectively connected with the conduct of a United States trade or business. That tax may be reduced or eliminated by an income tax treaty between the United States and the country in which the foreign corporate unitholder is a "qualified resident." In addition, such a unitholder is subject to special information reporting requirements under Section 6038C of the Code.

Under a ruling of the IRS, a foreign unitholder who sells or otherwise disposes of a unit will be subject to federal income tax on gain realized on the disposition of that unit to the extent that this gain is effectively connected with a United States trade or business. Except to the extent the ruling applied (as to which counsel has not opined), a foreign unitholder will not be taxed or subject to withholding upon the disposition of a unit if he has owned less than 5% in value of the units during the five-year period ending on the date of the disposition and if the units are regularly traded on an established securities market at the time of the disposition.

#### Administrative Matters

Information Returns and Audit Procedures. We intend to furnish to each Star Gas Partners unitholder, within 90 days after the close of each calendar year, specific tax information, including a Schedule K-1, which describes each Star Gas Partners unitholder's share of our income, gain, loss and deduction for our preceding taxable year. In preparing this information, which will generally not be reviewed by counsel, we will use various accounting and reporting conventions, some of which have been mentioned earlier, to determine the Star Gas Partners unitholder's share of income, gain, loss and deduction. There is no assurance that any of those conventions will yield a result that conforms to the requirements of the Code, regulations or administrative interpretations of the IRS. Neither we nor counsel can assure prospective Star Gas Partners unitholders that the IRS will not successfully contend in court that such accounting and reporting conventions are impermissible. Any such challenge by the IRS could negatively affect the value of the units.

The IRS may audit our federal income tax information returns. Adjustments resulting from any audit of this kind may require each Star Gas Partners unitholder to adjust a prior year's tax liability,

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and possibly may result in an audit of that unitholder's own return. Any audit of a Star Gas Partners unitholder's return could result in adjustments not related to our returns as well as those related to our returns.

Partnerships generally are treated as separate entities for purposes of federal tax audits, judicial review of administrative adjustments by the IRS and tax settlement proceedings. The tax treatment of partnership items of income, gain, loss and deduction are determined in a partnership proceeding rather than in separate proceedings with the partners. The Code provides for one partner to be designated as the "Tax Matters Partner" for these purposes. The amended and restated partnership agreement appoints the general partner as the Tax Matters Partner of Star Gas Partners.

The Tax Matters Partner will make specified elections on our behalf and on behalf of Star Gas Partners unitholders. In addition, the Tax Matters Partner can extend the statute of limitations for assessment of tax deficiencies against Star Gas Partners unitholders for items in our returns. The Tax Matters Partner may bind a Star Gas Partners unitholder with less than a 1% profits interest in us to a settlement with the IRS unless that unitholder elects, by filing a statement with the IRS, not to give such authority to the Tax Matters Partner. The Tax Matters Partner may seek judicial review, by which all the Star Gas Partners unitholders are bound, of a final partnership administrative adjustment and, if the Tax Matters Partner fails to seek judicial review, such review may be sought by any unitholder having at least a 1% interest in profits and by the unitholders having in the aggregate at least a 5% profits interest. However, only one action for judicial review will go forward, and each unitholder with an interest in the outcome may participate. If Star Gas Partners elects to be treated as a large partnership, which we do not currently intend to do, a Star Gas Partners unitholder will not have the right to participate in settlement conferences with the IRS or to seek a refund.

A unitholder must file a statement with the IRS identifying the treatment of any item on his federal income tax return that is not consistent with the treatment of the item on our return. Intentional or negligent disregard of the consistency requirement may subject a unitholder to substantial penalties. However, if Star Gas Partners elects to be treated as a large partnership, which it does not currently intend to do, the unitholders would be required to treat all partnership items in a manner consistent with our return.

Each partner in an electing large partnership takes into account separately a number of items determined at the partnership level. In addition, miscellaneous itemized deductions of an electing large partnership are not passed through to the partners and 30% of such deductions are used at the partnership level.

A number of changes have recently been made to the tax compliance and administrative rules relating to electing large partnerships. Adjustments relating to partnership items for a previous taxable year are generally taken into account by those persons who were partners in the previous taxable year. Each partner in an electing large partnership, however, must take into account his share of any adjustments to partnership items in the year those adjustments are made. Alternatively, an electing large partnership could elect, or in some circumstances could be required to, directly pay the tax resulting from any adjustments of this kind. In either case, therefore, unitholders could bear significant costs associated with tax adjustments relating to periods predating their acquisition of

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units. Although we are authorized under our amended and restated partnership agreement to do so, we do not expect to elect to have the large partnership provisions apply to us because of the cost of their application.

Nominee Reporting. Persons who hold an interest in us as a nominee for another person are required to furnish to us

- (a) the name, address and taxpayer identification number of the beneficial owner and the nominee;
- (b) whether the beneficial owner is
  - (1) a person that is not a United States person,
  - (2) a foreign government, an international organization or any wholly-owned agency or instrumentality of either of the foregoing, or
  - (3) a tax-exempt entity;
- (c) the amount and description of units held, acquired or transferred for the beneficial owner; and
- (d) specific information including the dates of acquisitions and transfers, means of acquisitions and transfers, and acquisition cost for purchases, as well as the amount of net proceeds from sales.

Brokers and financial institutions are required to furnish additional information, including whether they are United States persons and specific information on units they acquire, hold or transfer for their own account. A penalty of \$50 per failure, up to a maximum of \$100,000 per calendar year, is imposed by the Code for failure to report this information to Star Gas Partners. The nominee is required to supply the beneficial owner of the units with the information furnished to us.

Registration as a Tax Shelter. The predecessor general partner, as our organizer, has registered us as a tax shelter with the Secretary of the Treasury in the absence of assurance that we will not be subject to tax shelter registration and in light of the substantial penalties which might be imposed if registration is required and not undertaken.

The IRS has issued the following tax shelter registration number to Star Gas Partners: 96026000016. Issuance of the Registration Number does not indicate that investment in Star Gas Partners or the claimed tax benefits have been reviewed, examined or approved by the IRS.

We must furnish the registration number to the Star Gas Partners unitholders, and a Star Gas Partners unitholder who sells or otherwise transfers a Star Gas Partners unit in a later transaction must furnish the registration number to the transferee. The penalty for failure of the transferor of a unit to furnish the registration number to the transferee is \$100 for each failure. The Star Gas Partners unitholders must disclose the tax shelter registration number of Star Gas Partners on Form 8271 to be attached to the tax return on which any deduction, loss or other benefit generated by Star Gas Partners is claimed or income of Star Gas Partners is included. A Star Gas Partners unitholder who fails to disclose the tax shelter registration number on his return, without reasonable cause for that failure, will be subject to a \$250 penalty for each failure. Any penalties discussed are not deductible for federal income tax purposes.

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Accuracy-related Penalties. An additional tax equal to 20% of the amount of any portion of an underpayment of tax that is attributable to one or more specified causes, including negligence or disregard of rules or regulations, substantial understatements of income tax and substantial valuation misstatements, is imposed by the Code. No penalty will be imposed, however, for portion of an underpayment if it is shown that there was a reasonable cause for that portion and that the taxpayer acted in good faith regarding that portion.

A substantial understatement of income tax in any taxable year exists if the amount of the understatement exceeds the greater of 10% of the tax required to be shown on the return for the taxable year or \$5,000, \$10,000 for most corporations. The amount of any understatement subject to penalty generally is reduced if any portion of the understatement is attributable to a position adopted on the return (1) with respect to which there is, or was, "substantial authority" or (2) as to which there is a reasonable basis and the pertinent facts of such position are disclosed on the return. More stringent rules apply to "tax shelters," a term that in this context does not appear to include Star Gas Partners. If any Star Gas Partners item of income, gain, loss or deduction included in the distributive shares of unitholders might result in such an "understatement" of income for which no "substantial authority" exists, Star Gas Partners must disclose the pertinent facts on its return. In addition, Star Gas Partners will make a reasonable effort to furnish sufficient information for Star Gas Partners unitholders to make adequate disclosure on their returns to avoid liability for this penalty.

A substantial valuation misstatement exists if the value of any property, or the adjusted basis of any property, claimed on a tax return is 200% or more of the amount determined to be the correct amount of that valuation or adjusted basis. No penalty is imposed unless the portion of the underpayment attributable to a substantial valuation misstatement exceeds \$5,000, \$10,000 for most corporations. If the valuation claimed on a return is 400% or more than the correct valuation, the penalty imposed increases to 40%.

#### State, Local and Other Tax Considerations

In addition to federal income taxes, a unitholder will be subject to other taxes, such as state and local income taxes, unincorporated business taxes, and estate, inheritance or intangible taxes that may be imposed by the various jurisdictions in which he or she resides or in which Star Gas Partners does business or owns property. Although an analysis of those various taxes is not presented here, each prospective Star Gas Partners unitholder should consider their potential impact on his investment in Star Gas Partners. A Star Gas Partners unitholder will likely be required to file state and local income tax returns and pay state and local income taxes in some or all of the various jurisdictions in which we do business or own property and may be subject to penalties for failure to comply with those requirements. Star Gas Corporation anticipates that substantially all of Star Gas Partners' income will be generated in the following states: Connecticut, Indiana, Kentucky, Maine, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, and West Virginia. Each of these states currently imposes a personal income tax; however, New Hampshire's tax only applies to interest and dividend incomes. Some of them may require Star Gas Partners, or Star Gas Partners may elect, to withhold a percentage of income from amounts to be distributed to a Star Gas Partners unitholder who is not a resident of the state. A unitholder will be required to file state income tax returns and to pay state income taxes in some or all of these states and may be subject to penalties for failure to comply with those requirements. In some states, tax losses may not

produce a tax benefit in the year incurred and also may not be available to offset income in subsequent taxable years. Withholding, the amount of which may be greater or less than a particular unitholder's income tax liability to the state, generally does not relieve the non-resident unitholder from the obligation to file an income tax return. Amounts withheld may be treated as if distributed to unitholders for purposes of determining the amounts distributed by us. See "--Disposition of Units--Entity-Level Collections." Based on current law and our estimate of our future operations, we do not anticipate that any amounts required to be withheld will be material.

It is the responsibility of each unitholder to investigate the legal and tax consequences of his investment in us, under the laws of pertinent states and localities. Accordingly, each prospective unitholder should consult, and must depend upon, his own tax counsel or other advisor with regard to those matters. Further, it is the responsibility of each unitholder to file all U.S. federal, state and local, tax returns that may be required. Counsel has not rendered an opinion on the state or local tax consequences of an investment in us.

#### DISSENTERS' RIGHTS

Sections 302A.471 and 302A.473 of the Minnesota Business Corporation Act (the "Minnesota Act") provide to each Petro common stockholder the right to dissent from the acquisition proposal and to obtain payment from Petro for the "fair value" of his shares following the transaction. The term "fair value" means the value of a dissenting Petro common stockholder's shares of Petro common stock immediately before the completion of the transaction. Under the merger agreement, Star Gas Partners has agreed to make payment of the fair value of the shares of dissenting Petro common stockholders. Star Gas Partners common unitholders do not have dissenters' rights under the Delaware Act or the partnership agreement.

The following summary of the applicable material provisions of Sections 302A.471 and 302A.473 of the Minnesota Act the full texts of which are attached as Appendix E to this proxy statement. These sections should be reviewed carefully by any Petro common stockholder who wishes to exercise dissenters' rights or who wishes to preserve the right to do so, since failure to comply with the procedures in the Minnesota Act will result in the loss of dissenters' rights.

All references in Sections 302A.471 and 302A.473 of the Minnesota Act to a "shareholder" are to a record holder of shares of Petro common stock who asserts dissenters' rights. A person having beneficial ownership of shares of Petro common stock that are held of record in the name of another person, such as a broker, nominee, trustee or custodian, must act promptly to cause the record holder to follow the steps summarized below properly and in a timely manner in order to perfect whatever dissenters' rights a beneficial owner may have.

Petro common stockholders who wish to exercise their dissenters' rights under the Minnesota Act must satisfy all of the following conditions.

- (1) The common stockholder must deliver a written notice of intent to demand fair value for his shares of Petro common stock to Petro at the address specified below before the vote on the acquisition proposal. The notice of dissent is in addition to and separate from any proxy or vote against the acquisition proposal. Voting against, abstaining from voting or failing to vote on the acquisition proposal does not constitute a notice of dissent or demand for appraisal under the Minnesota Act. Only Petro common stockholders of record as of the record date, and beneficial owners of Petro common stock as of the record date who hold through Petro common stockholders, are entitled to exercise dissenters' rights.
- (2) The common stockholder must not vote for the acquisition proposal. A Petro common stockholder's failure to vote against the acquisition proposal will not constitute a waiver of his dissenters' rights. However, if a Petro common stockholder returns a signed proxy but does not specify a vote against the acquisition proposal or a direction to



abstain, the proxy will be voted for the acquisition proposal, which will have the effect of waiving that Petro common stockholder's dissenters' rights.

- (3) A Petro common stockholder may not assert dissenters' rights as to less than all of the shares of Petro common stock registered in his name and/or beneficially owned by him, except where shares are beneficially owned by another person but registered in the Petro common stockholder's name. If a Petro common stockholder, such as a broker, nominee,

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trustee or custodian, wishes to dissent with respect to shares of Petro common stock beneficially owned by another person, the Petro common stockholder must dissent with respect to all of these shares and must disclose the name and address of the beneficial owner on whose behalf the dissent is made. A beneficial owner of shares of Petro common stock who is not the record owner of his shares may assert dissenters' rights as to shares held on his behalf, provided that the beneficial owner submits a written consent of the record owner to Petro at or before the time dissenters' rights are asserted.

- (4) A Petro common stockholder who opts to exercise dissenters' rights must send a notice of dissent to Petro at the following address before the vote on the acquisition proposal: Petroleum Heat and Power Co., Inc., P.O. Box 1457, Stamford, CT 06902, Attention: Treasurer. The notice of dissent should specify the Petro common stockholder's name and mailing address, the number of shares of each class of Petro common stock owned by him and that he intends to demand the fair value of the shares.

If the acquisition proposal is approved by the Petro common stockholders at the Petro special meeting, Petro will send a written notice to each Petro common stockholder who filed a notice of dissent concerning the procedures that should be followed. The procedure notice will contain the address to which the Petro common stockholder should send a demand for the payment of the fair value of his shares of common stock and the certificates representing the shares in order to obtain payment and the date by which they must be received by Petro, a form to be used to make the demand for fair value and other related information.

In order to receive fair value for his shares of Petro common stock, a dissenting Petro common stockholder must, within 30 days after the date the procedure notice was provided, send his stock certificates, a demand for fair value and all other information specified in the procedure notice from Petro, to the address specified in the procedure notice. A dissenting Petro common stockholder will retain all rights as a common stockholder until the completion of the transaction. After the later of (1) the date Petro receives a valid demand for fair value and the related stock certificates and other information specified in the procedure notice and (2) the completion of the transaction, Star Gas Partners, on behalf of Petro, will remit to each dissenting Petro common stockholder who has complied with the statutory requirements the amount that Petro estimates to be the fair value of his shares of Petro common stock, with interest commencing five days after the completion of the transaction at a rate prescribed by law. Remittance will be accompanied by Petro's balance sheet and statement of operations for a fiscal year ending not more than 16 months before the completion of the transaction, together with the latest available interim financial data, an estimate of the fair value of the dissenting Petro common stockholder's shares of Petro common stock and a brief description of the method used to reach the estimate and of the procedure to be followed if the dissenting Petro common stockholder wishes to demand supplemental payment as described below and copies of Sections 302A.471 and 302A.473 of the Minnesota Act.

If the dissenting Petro common stockholder believes that the amount remitted by Star Gas Partners, on behalf of Petro, for his shares of Petro common stock is less than the fair value of his shares, plus interest, the dissenting Petro common stockholder may give written notice to Petro of his own estimate of the fair value of the shares, plus interest, within 30 days after the mailing date of the

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remittance and demand payment of the difference. A demand for this supplemental payment must be given to Petro at the address specified in the procedure notice. A Petro common stockholder who fails to give written notice within this time period is entitled only to the amount remitted by Star Gas Partners.

Within 60 days after receipt of a demand for supplemental payment, Petro must either (1) pay the Petro common stockholder the amount demanded or agreed to by the Petro common stockholder after discussion with Petro or (2) petition a state court in Hennepin County, Minnesota for the determination of the fair value of the shares, plus interest. The petition must name as parties all Petro common stockholders who have demanded supplemental payment and have not reached an agreement with Petro. The court, after determining that the dissenting Petro common stockholder or stockholders in question have complied with all statutory requirements, may use any valuation method or combination of methods it deems appropriate, whether or not used by Petro or the dissenting Petro common stockholder, and may appoint appraisers to recommend the amount of the fair value of the class of Petro common stock to be valued. The court's determination will be binding on all Petro common stockholders who properly exercised dissenters' rights and made demands for supplemental payment as described above. Dissenting Petro common stockholders are entitled to judgment for the amount by which the court-determined fair value per share, plus interest, exceeds the amount per share, plus interest, remitted to the Petro common stockholders by Star Gas Partners. Petro common stockholders will not be liable to Petro or Star Gas Partners for any amounts paid by Petro or Star Gas Partners that exceed the fair value of the shares as determined by the court, plus interest. The costs and expenses of a proceeding to determine the fair value of the shares, including the expenses and compensation of any appraisers, will be determined by the court and assessed against Petro, except that the court may, in its discretion, assess part or all of those costs and expenses against any Petro common stockholder whose action in demanding supplemental payment is found to be arbitrary, vexatious or not in good faith. The court may award fees and expenses to an attorney for the dissenting Petro common stockholders out of the amount, if any, awarded to the Petro common stockholders. Fees and expenses of experts or attorneys may also be assessed against any person who acted arbitrarily, vexatiously or not in good faith in bringing the proceeding.

Star Gas Partners may withhold the remittance of the estimated fair value, plus interest, for any shares of Petro common stock owned by any person who was not a Petro common stockholder, or who is dissenting on behalf of a person who was not a beneficial owner, on August 14, 1998. That date is the date on which the proposed transaction was first announced to the public. Petro will forward to post-announcement dissenting Petro common stockholder who has complied with all requirements in exercising dissenters' rights

- . the procedure notice,
- . all other materials sent after approval by the Petro common stockholders of the acquisition proposal to all Petro common stockholders who have properly exercised dissenters' rights,
- . together with a statement of the reason for withholding the remittance and
- . an offer to pay the dissenting Petro common stockholder the amount listed in the materials, if the common stockholder agrees to accept that amount in full satisfaction.

A post-announcement dissenting Petro common stockholder may decline the offer and demand payment by following the same procedure as that described for a demand for supplemental payment by Petro common stockholders who owned their shares on August 14, 1998. Any Petro common stockholder who did not own shares on August 14, 1998 and who fails properly to demand payment will be entitled only to the amount offered by Petro. Upon proper demand by any post-announcement Petro common stockholder, the same rules and procedures applicable to the making of a demand for supplemental payment by a dissenting Petro common stockholder who owned shares on August 14, 1998 will also apply to any post-announcement Petro common stockholder properly giving a demand for payment. Any post-announcement Petro common stockholder is not entitled to receive any remittance from Petro or Star Gas Partners until the fair value of the shares, plus interest, has been determined under those rules and procedures.

Petro common stockholders considering exercising dissenters' rights should bear in mind that the fair value of their shares determined under Sections 302A.471 and 302A.473 of the Minnesota Act could be more than, the same as or, in some circumstances, less than the consideration they would receive in the merger if they do not seek appraisal of their shares. Petro common stockholders should also recognize that the opinion of any investment banking firm as to fairness, from a financial point of view, is not an opinion as to fair value under Sections 302A.471 and 302A.473.

Cash received due to the exercise of dissenters' rights may be subject to federal or state income tax. See "Federal Income Tax Considerations."

A Petro common stockholder who fails to comply fully with the statutory procedure summarized above will forfeit his rights of dissent and will receive the transaction consideration for his Petro common stock. See Appendix F.

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#### LEGAL MATTERS

The validity of the Star Gas Partners common units and senior subordinated units to be issued in the transaction will be passed upon for Star Gas Partners by Phillips Nizer Benjamin Krim & Ballon LLP, New York, New York. Certain tax matters will be passed upon for Star Gas Partners by Andrews & Kurth L.L.P., New York, New York.

#### EXPERTS

The consolidated financial statements and schedules of Star Gas Partners, and its subsidiary and the Star Gas Group (Predecessor) as of September 30, 1997 and 1998 and for the fiscal years ended September 30, 1996, 1997 and 1998, incorporated by reference in this proxy statement, have been incorporated by reference in reliance upon the report of KPMG LLP, independent certified public accountants, incorporated by reference and upon the authority of that firm as experts in accounting and auditing.

The consolidated financial statements and schedules of Petro as of December 31, 1996 and 1997 and for the fiscal years ended December 31, 1995, 1996 and 1997, have been incorporated by reference in this proxy statement in reliance upon the report of KPMG LLP, independent certified public accountants, incorporated by reference and upon the authority of that firm as experts in accounting and auditing.

#### WHERE YOU CAN FIND MORE INFORMATION

Star Gas Partners and Petro file annual, quarterly and special reports, proxy statements (Petro only) and other information with the Commission. You may read and copy any reports, statement or other information that Star Gas Partners and Petro file with the Commission at the Commission's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms. These Commission filings are also available to the public from commercial document retrieval services and at the Internet world wide web site maintained by the Commission at "<http://www.sec.gov>." Reports and other information concerning Star Gas Partners should also be available for inspection at the offices of the NYSE.

Star Gas Partners filed a registration statement on Form S-4 to register with the Commission the common units and senior subordinated units to be issued in the transaction. This proxy statement is a part of that registration statement and constitutes a prospectus of Star Gas Partners. As allowed by Commission rules, this proxy statement does not contain all the information you can find in Star Gas Partners' registration statement or the exhibits to the registration statement.

The Commission allows Star Gas Partners and Petro to "incorporate by reference" information into this proxy statement, which means that they can disclose important information to you by referring you to another document filed separately with the Commission. The information incorporated by reference is considered part of this proxy statement, except for any information superseded by information contained directly in this proxy statement or in later filed documents incorporated by reference in this proxy statement.

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This proxy statement includes information required by the Commission to be disclosed under Rule 13e-3 of the Exchange Act which governs so-called "going private" transactions by certain issuers or their affiliates. In accordance with that rule, Petro filed with the Commission under the Exchange Act, a Schedule 13E-3 with respect to the transaction. This proxy statement does not contain all of the information in the Schedule 13E-3, parts of which are omitted in accordance with the regulations of the Commission. The Schedule 13E-3, and its amendments, including exhibits filed with it, will be available for inspection and copying at the offices of the Commission as set forth above.

This proxy statement incorporates by reference the documents set forth below that Star Gas Partners and Petro have previously filed with the Commission. These documents contain important information about Star Gas Partners and Petro and their finances.

The Partnership Commission Filings (File No. 33-78490)	Period/As of Date
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Annual Report on Form 10-K	Year ended September 30, 1998
Petro Commission Filings (File No. 1-9358)	Period/As of Date
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Annual Report on Form 10-K	Year ended December 31, 1997
Quarterly Report on Form 10-Q	Quarter ended September 30, 1998
Proxy Statement	April 30, 1998

You should rely only on the information contained or incorporated by reference in this proxy statement. We have not authorized anyone to provide you with information that is different from what is contained in this proxy statement. This proxy statement is dated . You should not assume that the information contained in this joint proxy statement-prospectus is accurate as of any date other than the date of the proxy statement. Neither the mailing of this proxy statement to securityholders nor the issuance of units in the transaction creates any implication to the contrary.

#### STATEMENT OF FORWARD-LOOKING DISCLOSURE

Some of the information in this proxy statement may contain forward-looking statements. You can identify these statements by our use of "will," "believe," "expect," "anticipate," "estimate," "continue," "think" or other similar words. These statements discuss future expectations, contain projections of results of operations or of financial condition, or state other "forward-looking" information. When considering these forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this proxy statement. The risk factors noted under "Risk Factors" and other factors noted throughout this proxy statement, including risks and uncertainties, could cause our actual results to differ materially from those contained in any forward-looking statement.

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#### INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following document filed by Star Gas Partners with the Commission (File No. 33-98490) is incorporated by reference in this proxy statement:

- (1) Star Gas Partners Annual Report on Form 10-K/A for the fiscal year ended September 30, 1998.

In addition, all other reports and documents filed by Star Gas Partners under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date hereof and prior to the unitholders meeting and the special meeting shall be deemed incorporated by reference into this proxy statement from the date of filing of such reports and documents. Any statement contained herein or in a document, all or a portion of which is incorporated or deemed to be incorporated by reference in this proxy statement, shall be deemed to be modified or superseded for purposes of this proxy statement to the extent that a statement contained here (and, in case of any statement in an incorporated document prior to the date of this proxy statement), or in any other

subsequently filed document which also is or is deemed to be incorporated by reference herein, modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this proxy statement.

The following documents filed by Petro with the Commission are also incorporated by reference in this proxy statement:

- (1) Petro's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997, which accompanies this proxy statement;
- (2) Petro's Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 1998, June 30, 1998 and 10Q/A for the fiscal quarter ended September 30, 1998, which accompanies this proxy statement; and
- (3) Petro's proxy statement dated April 30, 1998.

This proxy statement incorporates documents by reference that are not included with this proxy statement. These documents (excluding exhibits to such documents) are available without charge, upon oral or written request by any person, including any beneficial owner, to whom this proxy statement is delivered. For documents relating to Star Gas Partners, contact Star Gas Corporation, 2187 Atlantic Street, Stamford, Connecticut 06902, Attention: Richard F. Ambury, Vice President-Finance, telephone (203) 328-7313. For documents relating to Petro, contact Petroleum Heat and Power Co., Inc., 2187 Atlantic Avenue, Stamford, Connecticut 06902, Attention: George Leibowitz, Treasurer, telephone (203) 325-5470. To ensure timely delivery of the documents, any request should be made by February 26, 1999.

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UNAUDITED PRO FORMA CONDENSED  
CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma condensed consolidated financial information gives effect to the acquisition of Petro by Star Gas Partners, the transaction, including the equity offering, the debt offering and the application of the net proceeds from these offerings as described in "Summary--Financial Information--Estimated Sources and Uses of Funds of the Equity Offering and Debt Offering." The information presented is derived from, should be read in conjunction with, and is qualified in its entirety by, reference to the historical financial statements and related notes, appearing elsewhere and incorporated by reference in this proxy statement.

The unaudited pro forma condensed consolidated balance sheet was prepared as if the transaction had occurred on September 30, 1998. The unaudited pro forma condensed consolidated statement of operations for the twelve months ended September 30, 1998 was prepared as if the transaction had occurred on October 1, 1997.

The pro forma adjustments are based upon currently available information and certain estimates and assumptions described below, and therefore, the actual adjustments may differ from the unaudited pro forma adjustments. However, management believes that the assumptions provide a reasonable basis for representing the significant effects of the transaction as contemplated and that the unaudited pro forma adjustments give appropriate effect to those assumptions and are properly applied in the unaudited pro forma condensed consolidated financial information. The unaudited pro forma condensed consolidated balance sheet and statement of operations are not necessarily indicative of the financial position or results of operations of Star Gas Partners if the transaction had actually occurred on the dates indicated above. Likewise, the unaudited pro forma condensed consolidated financial information is not necessarily indicative of future financial combined position or future results of combined operations of Star Gas Partners.

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Star Gas Partners, L.P. and Subsidiaries

Pro Forma Condensed Consolidated Balance Sheet (unaudited)  
September 30, 1998  
(in thousands)



Total partners' capital.....	57,347	(209,618)	227,725	75,454	159,900	235,354
Total liabilities and partners' capital....	\$179,607	\$198,678	\$284,593	\$662,878	\$ 1,743	\$664,621

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Star Gas Partners, L.P. and Subsidiaries

Pro Forma Condensed Consolidated Statement of Operations  
(unaudited)  
Twelve Months Ended September 30, 1998  
(in thousands, except per Unit data)

	Star Gas Partners, L.P.	Propane Acquisitions (i)	Combined Propane Operations Petro (j)	Pro Forma Adjustments	Pro Forma Combined	The Offerings
Sales.....	\$111,685	\$4,386	\$116,071	\$452,765	\$(2,681) (k)	\$566,155
Costs and expenses:						
Cost of sales.....	49,498	1,972	51,470	299,987	(1,985) (k)	349,472
Operating expenses....	43,281	1,090	44,371	117,849	(669) (k)	161,551
Restructuring charges.....				2,085		2,085
Transaction expenses..				1,029		1,029
Corporate identity expenses.....				1,100		1,100
Provision for supplemental benefits				409		409
Depreciation and amortization.....	11,462	548	12,010	27,514	(87) (k)	36,765
Net gain (loss) on sales of assets.....	(271)		(271)	11,507	(11,284) (k)	(48)
Operating income	7,173	776	7,949	14,299	(8,552)	13,696
Interest (income) expense, net..	7,927	427	8,354	30,803		\$15,488 (p)
Amortization of debt issuance costs.....	176	--	176	1,432	--	1,608 (1,225) (n)
Income (loss) before income taxes.....	(930)	349	(581)	(17,936)	(8,552)	(27,069)
Income tax expense.....	25		25	475		500
Income before equity interest in Star Gas Corporation.....				(18,411)		
Share of income (loss) of Star Gas Corporation.....				(317)	317 (m)	
Net income (loss).....	\$ (955)	\$ 349	\$ (606)	\$(18,728)	\$(8,235)	\$(27,569)
General partner's interest in net income (loss).....	\$ (19)					
Limited partners' interest in net income (loss).....	\$ (936)					
Basic and diluted net income (loss) per limited partner unit...	\$ (0.16)					
Weighted average number of limited partner units outstanding.....	6,035	220	6,255	103 (c) (2,396) (f) 430 (f) 2,492 (f)	6,884	8,947 (h)

Star Gas Partners, L.P.  
Adjusted Pro Forma

Sales.....	\$566,155
Costs and expenses:	
Cost of sales.....	349,472
Operating expenses....	161,551
Restructuring charges.....	2,085
Transaction expenses..	1,029
Corporate identity expenses.....	1,100
Provision for	

supplemental benefits	409
Depreciation and amortization.....	36,765
Net gain (loss) on sales of assets.....	(48)
	-----
Operating income	13,696
Interest (income) expense, net..	23,669
Amortization of debt issuance costs.....	383
	-----
Income (loss) before income taxes.....	(10,356)
	-----
Income tax expense.....	500
Income before equity interest in Star Gas Corporation.....	
Share of income (loss) of Star Gas Corporation.....	--
	-----
Net income (loss).....	\$ (10,856)
	=====
General partner's interest in net income (loss).....	\$ (217)
	=====
Limited partners' interest in net income (loss).....	\$ (10,639)
	=====
Basic and diluted net income (loss) per limited partner unit...	\$ (0.67) (q)
	=====
Weighted average number of limited partner units outstanding.....	15,831 (q)

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Star Gas Partners, L.P. and Subsidiaries  
Notes to Pro Forma Condensed Consolidated Financial Information

The following pro forma adjustments give effect to

- (1) the offering of 809,000 common units by Star Gas Partners on December 16, 1997,
- (2) the acquisition of Petro,
- (3) the debt offering and
- (4) the equity offering,

as if each transaction had taken place on September 30, 1998, in the case of the pro forma condensed consolidated balance sheet, or as of October 1, 1997, in the case of the pro forma condensed consolidated statement of operations. The pro forma adjustments are based upon currently available information, certain estimates and assumptions described below and a preliminary determination and allocation of the total purchase price for Petro and therefore, the actual results may differ from the pro forma results. However, management believes that the assumptions provide a reasonable basis for presenting the significant effects of the transactions as contemplated, and that the pro forma adjustments give appropriate effect to those assumptions and are properly applied in the pro forma financial information.

Transaction Related Adjustments

(a) Reflects the accrued dividends payable on Petro's 1989 preferred stock and 12 7/8% preferred stock.

(b) Reflects the negotiated discount of approximately \$1.0 million to redeem Petro's 12 7/8% preferred stock and the negotiated premium of approximately \$2.8 million to refinance Petro's public debt.

(c) Reflects the issuance of 0.8 million shares of junior preferred stock of Petro, which will be converted into 0.1 million Star Gas Partners common units upon completion of the transaction at an assumed value of \$19.00 per unit. The junior preferred stock was issued to the holders of Petro's 9 3/8% subordinated debentures, 10 1/8% subordinated notes, and 12% subordinated debentures, and 12 7/8% preferred stock as consideration for consenting to the early redemption of those securities.



The Transaction (Merger and Exchange)

(d) Represents:

- (1) the estimated amount of current federal and state taxes to be incurred of \$4.6 million,
- (2) the estimated amount of deferred federal and state income taxes to be recognized of \$46.0 million, and
- (3) the elimination of the tax liability associated with the Pearl Gas conveyance of \$3.5 million.

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(e) Reflects the estimated additional amount of \$7.3 million to be recorded by Petro for legal, professional and advisory fees incurred by Petro and Star Gas Partners in the transaction.

(f) Represents the exchange of 26.5 million shares of Petro's Class A common stock and Class C common stock valued at \$50.9 million for 2.5 million Star Gas Partners senior subordinated units valued at \$40.8 million, 0.4 million Star Gas Partners junior subordinated units valued at \$5.8 million and 0.3 million Star Gas Partners general partner units valued at \$4.3 million. The 2.4 million Star Gas Partners subordinated units outstanding prior to the transaction will be contributed to Star Gas Partners by Petro. The value assigned to Petro's Class A common stock is \$45.8 million or \$1.92 per share and the value assigned to Petro's Class C common stock is \$5.0 million or \$1.92 per share. The method used to determine the fair market value of Petro's Class A and Class C common stock was based on an implied unit analysis. The method used to determine the fair market value of Star Gas Partners' senior subordinated units, junior subordinated units and general partner units was based on an implied unit analysis. See page 69 for a description of the implied unit analysis method.

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The table below summarizes the preliminary allocation by Star Gas Partners of the excess of purchase price over book value related to the acquisition of Petro. The allocation of the purchase price is based on the results of a preliminary appraisal of property, plant and equipment, customer lists and the September 30, 1998 recorded values for tangible assets and liabilities. The anticipated closing date of the transaction is March 31, 1999. This purchase price allocation will be updated for changes in current assets and liabilities based on Petro's operating results from October 1, 1998 to the anticipated closing date. From October 1, 1998 to the closing date, it is expected that Petro will generate net income and positive cash flows and that working capital will increase. As a result, the amount of goodwill to be recorded on the closing date will decrease. Subject to Petro's operating results which could be impacted by weather, among other factors, it is estimated that the increase in working capital for Petro from October 1, 1998 to the closing date will range between \$30 million to \$40 million.

The preliminary allocation is as follows (in thousands):

Consideration given for the exchange of Petro shares.....	\$ 50,910
Transaction expenses (1).....	6,954
	-----
Total consideration.....	57,864
	-----
Fair market value of Petro's asset and liabilities as of September 30, 1998:	
Current assets.....	(82,712)
Cash collateral account.....	(6,900)
Property, plant and equipment (2).....	(40,109)
Value of Petro's investment in Star Gas Partners.....	(34,756)
Current liabilities.....	90,533
Accrued income taxes.....	4,600
Accrued preferred dividends.....	583
Long-term debt.....	281,708
Deferred income taxes.....	46,000

Other liabilities.....	7,186
Preferred stock.....	27,600
Junior preferred stock.....	1,953
	-----
Subtotal.....	295,686
	-----
Total value assigned to intangibles and other assets.....	353,550
Carrying amount of intangibles and other assets.....	(80,267)
	-----
Allocation of excess purchase price to intangibles.....	\$273,283
	=====
Consisting of:	
Customer lists.....	\$ 95,000
Goodwill.....	257,554
Other assets.....	996
	-----
Total intangibles and other assets.....	\$353,550
	=====

- -----

(1) Transaction expenses include legal, accounting, investment advisory and asset appraisal costs.

(2) Includes fair market value adjustment of \$11.3 million.

The fair market value for property plant and equipment, excluding real estate, was established using the cost approach method. The market approach was used in valuing the real estate. The value assigned to customer lists was derived using a discounted cash flow analysis. The cash flows attributable to the customer lists were discounted back at an equity risk-adjusted cost of capital to the net present value, and any excess was attributable to goodwill.

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#### The Debt Offering and the Equity Offering

(g) Reflects the estimated net proceeds to Petro of \$87.9 million from the \$90.0 million debt offering, net of discounts and commissions (estimated to be \$1.1 million) and offering expenses (estimated to be \$1.0 million). These costs are being amortized over the term of the related debt which is assumed to be 10 years.

(h) Reflects the estimated net proceeds to Star Gas Partners of \$159.9 million from the issuance and sale of 8.9 million common units in the equity offering at an assumed offering price of \$19.00 per common unit, net of underwriting discounts and commissions (estimated to be \$8.5 million) and offering expenses (estimated to be \$1.6 million).

#### The Propane Acquisitions

(i) Represents the results of propane distributors acquired by Star Gas Partners in fiscal 1998 from October 1, 1997 to their dates of acquisition. Results of these distributors from the dates of acquisition to September 30, 1998 are included in Star Gas Partners' twelve months ended September 30, 1998 results adjusted for:

- (1) cost savings of \$0.3 million, primarily executive compensation and legal expenses relating to selling shareholders;
- (2) additional depreciation and amortization of \$0.5 million; and
- (3) additional interest expense of \$0.4 million.

#### The Transaction (Acquisition of Petro)

(j) Represents the results of operations of Petro for the twelve months ended September 30, 1998. Estimated expenses of \$8.3 million to be incurred by Petro as a direct result of its acquisition by Star Gas Partners will be included in Petro's actual statement of operations. For the twelve months ended September 30, 1998, Petro has recorded \$1.0 million of these expenses.

(k) Adjustment to reflect the disposition of Petro's Hartford, Connecticut operations in November 1997. Petro received cash proceeds of \$15.6 million and recorded a gain of \$11.3 million. The carrying value of these assets at the time of sale was \$4.3 million.

(1) Adjustment to depreciation and amortization expense attributable to the acquisition of Petro.

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Star Gas Partners believes that the amortization periods assigned to the assets below are appropriate. However, if the final amortization periods assigned to the tangible and intangible assets were of shorter duration, the amount of depreciation and amortization would increase and reduce net income. The following table summarizes the effect on depreciation and amortization of the acquisition of Petro.

	Net Book Value Amount per Petro's Financials			Amount per Appraisal			Difference
	Asset	Life	Depreciation	Asset	Life	Depreciation	
Property and equipment, net							
Land.....	\$ 2,092		\$ --	\$ 3,300		\$ --	\$ --
Buildings.....	4,920	20-45 years	419	4,300	30 years	143	(276)
Fleet.....	6,342	5 to 7 years	2,866	12,800	6 years	2,135	(731)
Leasehold.....	4,353	term of leases	562	5,900	term of leases	457	(105)
Computer, furniture and fixtures.....	7,593	5 to 7 years	2,491	9,700	5 to 7 years	1,661	(830)
Service & other equipment.....	3,499	5 to 13 years	692	4,109	5 to 13 years	557	(135)
Total property and equipment.....	\$28,799		\$ 7,030	\$ 40,109		\$ 4,953	\$ (2,077)
Intangible and other assets, net							
Customer list.....	\$56,298	6.5 years	\$17,364	\$ 95,000	10 years	\$ 9,500	\$ (7,864)
Goodwill.....	10,292	25 years	1,129	257,554	25 years	10,302	9,173
Covenants not to compete.....	4,041	5 to 7 years	1,904	--		--	(1,904)
Other assets.....	996		--	996		--	--
Total intangible and other assets.....	\$71,627		\$20,397	\$353,550		\$19,802	\$ (595)
Totals.....			\$27,427			\$24,755	\$ (2,672)

Petro's property, plant and equipment is being depreciated using a historical cost which is approximately \$80 million. The fair market value of these assets is \$40.1 million. When depreciation expense is calculated based on the fair market value, this expense is \$2.1 million lower than historical depreciation. Pro forma depreciation is less than historical depreciation due to decline in the asset base being depreciated and an extension of the useful lives of those assets. The remaining lives assigned to property, plant and equipment were determined by an independent appraisal firm. All property, plant and equipment is depreciated using the straight-line method.

Pro forma customer list amortization is less than historical amortization due to a longer life and a lower amortization asset. The original cost used to amortize historical customer list was approximately \$120 million. The longer life represents Petro's improved retention rate as well as the retention of customers obtained through internal marketing, which have a higher retention rate than for customers acquired through acquisition. Petro's previous acquisitions represented the acquisition of customers. The acquisition of Petro by Star Gas Partners is an acquisition of an on-going business. The appraisal assigned a greater allocation to goodwill than what was previously allocated by Petro in their purchase of 188 relatively small fuel oil dealers. This resulted in approximately \$9.2 million of additional amortization, largely offsetting the \$7.9 million of less customer list amortization.

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Restrictive covenants were not assigned a value under the pro forma intangibles due to the minimal amount of the asset value expected at closing. Intangibles are amortized on a straight-line basis.

(m) Reflects the elimination of Petro's equity interest in Star Gas Partners.

The Offerings

(n) Net adjustment to amortization of debt issuance costs of \$1.2 million attributable to the debt offering and the acquisition of Petro. Amortization of debt issuance costs is decreased by \$1.4 million relating to the repayment of Petro debt and is increased by \$0.2 million relating to the 7.5% notes.

(o) Reflects the use of the net proceeds from the equity offering, the debt offering and \$0.3 million of Petro's cash to repay \$84.1 million of Petro's 12 1/4% Senior Subordinated Debentures due 2005 including \$2.8 million of premiums, to repay \$50.0 million of Petro's 10 1/8% Senior Subordinated Notes due 2003, to repay \$75.0 million of Petro's 9 3/8% Senior Subordinated Debentures due 2006, to retire \$27.6 million of Petro's 12 7/8% Exchangeable Preferred Stock, to retire \$4.1 million of Petro's 14.33% Exchangeable Preferred Stock and to pay \$7.3 million of transaction expenses.

(p) Reflects the net reduction to interest expense of \$15.5 million for the twelve months ended September 30, 1998. This amount reflects \$6.8 million of additional interest expense annually on the \$90.0 million in principal amount of the senior secured notes at an assumed interest rate of 7.5%. This amount also reflects an annual reduction in interest expense of \$22.0 million due to the repayment of \$206.3 million of Petro public debt with the proceeds of the equity offering and the debt offering.

The following table summarizes the effect on interest expense of the transaction:

	Amount	Interest Rate	Interest Expense
	-----	-----	-----
Debt Repaid			
Petro 12 1/4% Senior Subordinated Debentures(1)....	\$81,250	12.25%	\$ 9,953
Petro 10 1/8% Senior Subordinated Notes.....	50,000	10.125%	5,063
Petro 9 3/8% Senior Subordinated Debentures.....	75,000	9.375%	7,031
Lower letter of credit fees on Acquisition Notes...			191
			-----
Total Reductions to Interest Expense.....			\$22,238
			=====
	Amount	Interest Rate	Interest Expense
	-----	-----	-----
New Debt Issued			
Petro 7.5% Notes.....	\$90,000	7.5%	\$(6,750)
			-----
Net Reduction to Interest Expense.....			\$15,488
			=====

(1) Excludes prepayment premium of \$2.8 million.

(q) The amended and restated partnership agreement provides that for each non-overlapping four quarter period that occurs after the first anniversary of the transaction, but before the fifth anniversary of the transaction, in which the dollar amount of Petro Adjusted Operating Surplus per Petro Unit equals or exceeds \$2.90, Star Gas Partners will issue 303,000 senior subordinated units, pro rata, or 303,000 Class B common units, pro rata, if such issuance occurs after the end of the subordination period. These additional senior subordinated units will be issued to the current holders of the senior subordinated units, junior subordinated units and the general partner units. Star Gas Partners may not issue more than an aggregate of 909,000 senior subordinated units or Class B common units under this provision. The issuance of these senior subordinated units will not generate any additional proceeds to Star Gas Partners. When these units are issued, an additional amount of goodwill will be recorded. Assuming 303,000 senior subordinated units are issued, the amount of goodwill to be recorded will be \$4.9 million. As a result, annual amortization expense would increase by \$0.2 million and would decrease net income per limited

partner unit by \$0.01 per unit. If these senior subordinated units are issued and they are converted into Class B common units, the Class A common units would be diluted in terms of available cash to be used for payment of the quarterly distributions.

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#### GLOSSARY OF TERMS

Adjusted Operating Surplus: For any period, Operating Surplus generated during that period as adjusted to:

(a) decrease Operating Surplus by;

(1) any net increase in working capital borrowings during that period, and

(2) any net reduction in cash reserves for Operating Expenditures during that period not relating to an Operating Expenditure made during that period; and

(b) increase Operating Surplus by;

(1) any net decrease in working capital borrowings during that period; and

(2) any net increase in cash reserves for Operating Expenditures during that period required by any debt instrument for the repayment of principal, interest or premium.

Adjusted Operating Surplus does not include that portion of Operating Surplus included in clause (a)(1) of the definition of Operating Surplus.

Available Cash: For any quarter prior to liquidation:

(a) the sum of:

(1) all cash and cash equivalents of the Star Gas Partners and its subsidiaries on hand at the end of that quarter; and

(2) all additional cash and cash equivalents of Star Gas Partners and its subsidiaries on hand on the date of determination of Available Cash for that quarter resulting from Working Capital Borrowings after the end of that quarter;

(b) less the amount of cash reserves that is necessary or appropriate in the reasonable discretion of the general partner to:

(1) provide for the proper conduct of the business of Star Gas Partners and its subsidiaries (including reserves for future capital expenditures) after that quarter;

(2) provide funds for minimum quarterly distributions and cumulative common unit arrearages for any one or more of the next four quarters; or

(3) comply with applicable law or any debt instrument or other agreement or obligation to which any member of Star Gas Partners and its subsidiaries is a party or its assets are subject;

provided, however, that the general partner may not establish cash reserves for distributions to the senior subordinated units unless the general partner has determined that in its judgment the establishment of reserves will not prevent Star Gas Partners from distributing the minimum quarterly distribution on all common units and any common unit arrearages thereon for the next four quarters; and,

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provided further, that disbursements made by Star Gas Partners and its subsidiaries or cash reserves established, increased or reduced after the end of that quarter but on or before the date of determination of Available Cash for that quarter shall be deemed to

have been made, established, increased or reduced, for purposes of determining Available Cash, within that quarter if the general partner so determines.

**Capital Account:** The capital account maintained for a partner under the amended and restated partnership agreement. The Capital Account for a common unit, a subordinated unit, a junior subordinated unit, a general partner unit or any other specified interest in Star Gas Partners shall be the amount which that Capital Account would be if that common unit, subordinated unit, junior subordinated unit, general partner unit or other interest in Star Gas Partners were the only interest in Star Gas Partners held by a partner.

**Capital Surplus:** All Available Cash distributed by Star Gas Partners from any source will be treated as distributed from Operating Surplus until the sum of all Available Cash distributed since the commencement of Star Gas Partners equals the Operating Surplus as of the end of the quarter before that distribution. Any excess Available Cash will be deemed to be Capital Surplus.

**Closing Price:** The last sale price on a day, regular way, or in case no sale takes place on that day, the average of the closing bid and asked prices on that day, regular way. In either case, as reported in the principal consolidated transaction reporting system for securities listed or admitted to trading on the principal national securities exchange on which the units of that class are listed or admitted to trading. If the units of that class are not listed or admitted to trading on any national securities exchange, the last quoted price on that day. If no quoted price exists, the average of the high bid and low asked prices on that day in the over-the-counter market, as reported by the Nasdaq Stock Market or any other system then in use. If on any day the units of that class are not quoted by any organization of that type, the average of the closing bid and asked prices on that day as furnished by a professional market maker making a market in the units of the class selected by the board of directors of the general partner. If on that day no market maker is making a market in the units of that class, the fair value of such units on that day as determined reasonably and in good faith by the board of directors of the general partner.

**Current Market Price:** With respect to any class of units listed or admitted to trading on any national securities exchange as of any date, the average of the daily Closing Prices for the 20 consecutive trading days immediately prior to such date.

**Interim Capital Transactions:**

- (a) borrowings, refinancings or refundings of indebtedness and sales of debt securities (other than Working Capital Borrowings and other than for items purchased on open account in the ordinary course of business) by any member of Star Gas Partners and its subsidiaries;
- (b) sales of equity interests (including common units sold to the underwriters in the exercise of their over-allotment option) by any member of Star Gas Partners and its subsidiaries; and

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- (c) sales or other voluntary or involuntary dispositions of any assets of any member of Star Gas Partners and its subsidiaries (other than sales or other dispositions of inventory in the ordinary course of business, sales or other dispositions of other current assets, including, without limitation, receivables and accounts, in the ordinary course of business and sales or other dispositions of assets as a part of normal retirements or replacements), in each case before the dissolution and liquidation of Star Gas Partners.

**Operating Expenditures:** All expenditures of Star Gas Partners and its subsidiaries including taxes, reimbursements of the general partner, debt service payments, and capital expenditures, subject to the following:

- (a) Payments (including prepayments) of principal and premium on a debt shall not be an Operating Expenditure if the payment is;
  - (1) required for the sale or other disposition of assets or
  - (2) made for the refinancing or refunding of indebtedness with the proceeds from new indebtedness or from the sale of equity

interests. For purposes of the foregoing, at the election and in the reasonable discretion of the general partner, any payment of principal or premium shall be deemed to be refunded or refinanced by any indebtedness incurred or to be incurred by Star Gas Partners and its subsidiaries within 180 days before or after that payment to the extent of the principal amount of that indebtedness.

(b) Operating Expenditures shall not include;

- (1) capital expenditures made for acquisitions or for capital improvements (as opposed to capital expenditures made to maintain assets);
- (2) payment of transaction expenses relating to Interim Capital Transactions;
- (3) payment of transaction expenses related to the merger and the transactions contemplated by the merger; or
- (4) distributions to partners. Where capital expenditures are made in part for acquisitions or capital improvements and in part for other purposes, the general partner's good faith allocation between the amounts paid for each shall be conclusive.

Operating Surplus: As to any period before liquidation:

(a) the sum of:

- (1) \$20,071,225 plus all cash of Star Gas Partners and its subsidiaries on hand as of the close of business on the closing date of the initial public offering;
- (2) all the cash receipts of Star Gas Partners and its subsidiaries for the period beginning on the closing date of the initial public offering and ending with the last day of that period, other than cash receipts from Interim Capital Transactions (except to the extent specified in the amended and restated partnership agreement; and
- (3) all cash receipts of Star Gas Partners and its subsidiaries after the end of that period but on or before the date of determination of Operating Surplus for the period resulting from borrowings for working capital purposes; less

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(b) the sum of:

- (1) Operating Expenditures for the period beginning on the date of the closing of the initial public offering and ending with the last day of that period; and
- (2) the amount of cash reserves that is necessary or advisable in the reasonable discretion of the general partner to provide funds for future Operating Expenditures; provided, however, that disbursements made (including contributions to Star Gas Partners or any of its subsidiaries or disbursements on behalf of Star Gas Partners or any of its subsidiaries) or cash reserves established, increased or reduced after the end of that period but on or before the date of determination of Available Cash for that period shall be deemed to have been made, established, increased or reduced, for purposes of determining Operating Surplus, within that period if the general partner so determines.

Notwithstanding the foregoing, "Operating Surplus" for the quarter in which the liquidation date occurs and any later quarter shall equal zero.

Subordination Period: The subordination period will extend from the date of the closing of the initial public offering until the first to occur of the following:

- (a) the first day of any quarter beginning on or after October 1, 2002

for which;

- (1) distributions of Available Cash from Operating Surplus on each of the outstanding common units, senior subordinated units, junior subordinated units and general partner units equaled or exceeded the sum of the minimum quarterly distribution on all of the outstanding common units and junior subordinated units for each of the three non-overlapping four-quarter periods immediately preceding that date;
  - (2) the Adjusted Operating Surplus, generated during each of the three immediately preceding, non-overlapping four quarter periods equaled or exceeded the sum of minimum quarterly distribution on all of the common units, senior subordinated units, junior subordinated units and general partner units that were outstanding during those periods on a fully diluted basis for employee options or other employee incentive compensation (i.e., taking into account for purposes of that determination all outstanding common units, senior subordinated units, junior subordinated units and general partner units and all common units issuable upon exercise of employee options that have, as of the date of determination, already vested or are scheduled to vest before the end of the quarter immediately following the quarter for which determination is made, and all units that have, as of the date of determination, been earned by but not yet issued to management of Star Gas Partners for incentive compensation); and
  - (3) there are no arrearages in payment of the minimum quarterly distribution on the common units.
- (b) the date on which the general partner is removed as general partner of Star Gas Partners upon the requisite vote by limited partners under circumstances where cause does not exist; provided, however, that if the general partner is removed during the

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subordination period within 12 months after the end of a six-quarter period in which the minimum quarterly distribution was not made on the common units for more than one of those quarters (excluding for this purpose the payment of any common unit arrearages) and the first quarter of that six-quarter period that the minimum quarterly distribution on common units was not made occurs after March 31, 2001, then the subordination period will not end. In the event that the general partner is removed under the circumstances described above, the junior subordinated units shall convert into senior subordinated units on a one-for-one basis and the distribution rights on the general partner units will rank equally with the senior subordinated units.

Working Capital Borrowings: Borrowings under to a facility or other arrangement requiring all of its borrowings to be reduced to a relatively small amount each year for an economically meaningful period of time. Borrowings that are not intended exclusively for working capital purposes shall not be treated as Working Capital Borrowings.

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#### APPENDIX A

No transfer of the Units evidenced hereby will be registered on the books of the Partnership unless the Certificate evidencing the Units to be transferred is surrendered for registration or transfer and an Application for Transfer of Units has been executed by a transferee either (a) on the form set forth below or (b) on a separate application that the Partnership will furnish on request without charge. A transferor of the Units shall have no duty to the transferee with respect to execution of the transfer application in order for such transferee to obtain registration of the transfer of the Units.

#### APPLICATION FOR TRANSFER OF UNITS

The undersigned ("Assignee") hereby applies for transfer to the name of the



Assignee of the Units evidenced hereby.

The Assignee (a) requests admission as a Substituted Limited Partner (evidenced by a credit to the account of the undersigned at The Depository Trust Company in the name of its nominee, Cede & Co.) and agrees to comply with and be bound by, and hereby executes, the Agreement of Limited Partnership of Star Gas Partners, L.P. (the "Partnership"), as amended, supplemented or restated to the date hereof (the "Partnership Agreement"), (b) represents and warrants that the Assignee has all right, power and authority and, if an individual, the capacity necessary to enter into the Partnership Agreement, (c) appoints the General Partner and, if a Liquidator shall be appointed, the Liquidator of the Partnership as the Assignee's attorney-in fact to execute, swear to, acknowledge and file any document, including, without limitation, the Partnership Agreement and any amendment thereto and the Certificate of Limited Partnership of the Partnership and any amendment thereto, necessary or appropriate for the Assignee's admission as a Substituted Limited Partner and as a party to the Partnership Agreement, (d) gives the powers of attorney provided for in the Partnership Agreement and (e) makes the waivers and gives the consents and approvals contained in the Partnership Agreement. Capitalized terms not defined herein have the meanings assigned to such terms in the Partnership Agreement.

Date: \_\_\_\_\_

-----  
Signature of Assignee

-----  
Social Security or other identifying number of Assignee

-----  
-----  
-----

App-1

Name and Address of Assignee

-----  
Purchase Price including commissions, if any

Type of Entity (check one):

- Individual
- Trust
  
- Partnership
- Other (specify) \_\_\_\_\_
- Corporation

Nationality (check one):

- U.S. Citizen, Resident or Domestic Entity
- Foreign Corporation
- Non-resident Alien

If the U.S. Citizen, Resident or Domestic Entity box is checked, the following certification must be completed.

Under Section 1445(e) of the Internal Revenue Code of 1986, as amended (the "Code"), the Partnership must withhold tax with respect to certain transfers of property if a holder of an interest in the Partnership is a foreign person. To inform the Partnership that no withholding is required with respect to the undersigned interestholder's interest in it, the undersigned hereby certifies the following (or, if applicable, certifies the following on behalf of the interestholder).

Complete Either A or B:

A. Individual Interestholder

1. I am not a non-resident alien for purposes of U.S. income taxation.

2. My U.S. taxpayer identification number (Social Security Number) is \_\_\_\_\_

3. My home address is \_\_\_\_\_

B. Partnership, Corporation or Other Interestholder

1. (Name of Interestholder) is not a foreign corporation, \_\_\_\_\_ foreign partnership, foreign trust or foreign estate (as those terms are defined in the Code and Treasury Regulations).

2. The interestholder's U.S. employer identification number is \_\_\_\_\_

3. The interestholder's office address and place of incorporation (if applicable) is \_\_\_\_\_

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The interestholder agrees to notify the Partnership within sixty (60) days of the date the interestholder becomes a foreign person.

The interestholder understands that this certificate may be disclosed to the Internal Revenue Service by the Partnership and that any false statement contained herein could be punishable by fine, imprisonment or both.

Under penalties of perjury, I declare that I have examined this certification and to the best of my knowledge and belief it is true, correct and complete and, if applicable, I further declare that I have authority to sign this document on behalf of

(Name of Interestholder) \_\_\_\_\_

Signature and Date \_\_\_\_\_

Title (if applicable) \_\_\_\_\_

Note: If the Assignee is a broker, dealer, bank, trust company, clearing corporation, other nominee holder or an agent of any of the foregoing, and is holding for the account of any other person, this application should be completed by an officer thereof or, in the case of a broker or dealer, by a registered representative who is a member of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc., or, in the case of any other nominee holder, a person performing a similar function. If the Assignee is a broker, dealer, bank, trust company, clearing corporation, other nominee owner or an agent of any of the foregoing, the above certification as to any person for whom the Assignee will hold the Units shall be made to the best of the Assignee's knowledge.

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Annex A

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FORM OF AMENDED AND RESTATED  
AGREEMENT AND PLAN OF MERGER  
BY AND AMONG

PETROLEUM HEAT AND POWER CO., INC.  
STAR GAS PARTNERS L.P.  
PETRO/MERGE CO, INC.

AND

STAR GAS PROPANE, L.P.

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AMENDED AND RESTATED AGREEMENT AND PLAN OF MERGER, dated as of February 3, 1999 (this "Agreement"), by and among PETROLEUM HEAT AND POWER CO., INC., a Minnesota corporation ("Petro"), STAR GAS PARTNERS, L.P., a Delaware limited partnership ("Star Partners"), STAR GAS PROPANE, L.P., a Delaware limited partnership ("Star Propane"), and PETRO/MERGECO, INC., a Minnesota corporation ("Mergeco") and an indirect, wholly owned subsidiary of Star Partners.

WITNESSETH:

WHEREAS, the Board of Directors of Petro and the Board of Directors of Star Gas Corporation, the general partner of Star Partners and Star Propane, upon the recommendation of the Special Committee of the Board of Directors of the General Partner, have determined that it is in the best interests of their respective companies and their equity holders to consummate the business combination provided for herein pursuant to which Mergeco will, subject to the terms and conditions set forth herein, merge (the "Merger") with and into Petro, with Petro surviving as an indirect, wholly owned subsidiary of Star Partners;

WHEREAS, on or prior to the date hereof, the Tax Free Group (as defined herein) and Star Partners have executed the Exchange Agreement (as defined herein);

WHEREAS, the parties desire to make certain representations, warranties and agreements in connection with the Merger and also to prescribe certain conditions to the Merger;

WHEREAS, in connection therewith, the parties hereto have entered into that certain Merger Agreement (the "Original Merger Agreement") dated as of October 22, 1998;

WHEREAS, the parties hereto wish to amend and restate the Original Merger Agreement in its entirety as set forth as follows;

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties and agreements contained herein, and intending to be legally bound hereby, the Original Merger Agreement is hereby amended and, as so amended, is restated in its entirety as follows:

#### ARTICLE I. CERTAIN DEFINITIONS

1.1. Certain Definitions. As used in this Agreement, the following terms shall have the meanings set forth below:

"Affiliate" shall have the meaning set forth in Section 6.8(a).

"Agreement" shall have the meaning set forth in the introductory paragraph to this Agreement.

"Amended and Restated Operating Partnership Agreement" shall mean the Amended and Restated Operating Partnership Agreement substantially in the form attached hereto as Exhibit B.

"Amended and Restated Partnership Agreement" shall mean the Amended and Restated Partnership Agreement substantially in the form attached hereto as Exhibit A.

"Articles of Merger" shall have the meaning set forth in Section 2.1(b).

"Certificate of Merger" shall have the meaning set forth in Section 2.1(b).

"Certificates" shall have the meaning set forth in Section 3.4(b).

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"Closing" shall have the meaning set forth in Section 2.2.

"Closing Date" shall have the meaning set forth in Section 2.2.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Common Units" shall mean the common units representing limited partner interests of Star Partners having the rights and obligations specified with respect to Common Units in the Amended and Restated Partnership Agreement.

"Compensation and Benefit Plans" shall have the meaning set forth in Section 5.3(1).

"Cost of Capital" shall mean the sum of (a) the number of Common Units and Senior Subordinated Units issued in the Equity Offering (excluding any Common Units or Senior Subordinated Units issued pursuant to the exercise of an over-allotment option except any over-allotment securities sold on the closing date of the Equity Offering the proceeds of which are applied to redeem any securities described in Section 6.4 or to pay those costs described in Section 7.13(d)) multiplied by \$2.30 and (b) the principal amount of debt issued in the Debt Offering multiplied by the interest rate on such debt.

Notwithstanding the foregoing, if it appears that the Cost of Capital on the securities necessary to be issued in the Debt Offering and Equity Offering to redeem the 12 7/8% Series C Exchangeable Preferred Stock, the 1989 Preferred Stock and the Public Debt ("Relevant Securities") and to pay the costs described in Section 7.13(d) not to exceed \$19,139,000 would exceed \$27.5 million on an annual basis ("Excess Cost"), then the following will apply:

(i) If the holders of the Relevant Securities agree to accept \$2 million less than the maximum redemption and repurchase amounts indicated in Sections 6.4(b), (c) and (d) and if a reduction in the size of the Equity Offering to reflect the lower proceeds required would not be sufficient to eliminate any Excess Cost, then for purposes of determining Cost of Capital, the number of Common Units deemed issued in the Equity Offering shall be reduced by an amount necessary to reduce the Cost of Capital to \$27.5 million on an annual basis, subject to a maximum reduction pursuant to this clause of 105,263 Common Units.

(ii) If, after giving effect to subparagraph (i), the Cost of Capital on the securities necessary to be issued in the Debt Offering and Equity Offering to effect the redemption and repurchase of securities described in Section 6.4 and to pay the costs described in Section 7.13(d) not to exceed \$19,139,000 continues to exceed \$27.5 million on an annual basis and if the holders of the Relevant Securities agree to accept \$3 million less than the maximum redemption and repurchase amount indicated in Sections 6.4(b), (c) and (d), and if a reduction in the size of the Equity Offering to reflect the lower proceeds required does not eliminate any remaining Excess Cost, then for purposes of determining Cost of Capital, the number of Common Units deemed issued in the Equity Offering shall be further reduced by an amount necessary to reduce the Cost of Capital to \$27.5 million on an annual basis, subject to a maximum reduction pursuant to this clause of an additional 52,631 Common Units.

(iii) If, after giving effect to subparagraphs (i) and (ii), the Cost of Capital on the securities necessary to be issued in the Debt Offering and Equity Offering to effect the redemption and repurchase of securities described in Section 6.4 and to pay the costs described in Section

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7.13(d) not to exceed \$19,139,000 continues to exceed \$27.5 million on an annual basis, and if the holders of the Relevant Securities agree to accept

\$4 million less than the maximum redemption and repurchase amount indicated in Sections 6.4(b), (c) and (d), and if a reduction in the size of the Equity Offering to reflect the lower proceeds required does not eliminate any remaining Excess Cost, then for purposes of determining Cost of Capital, the number of Common Units deemed issued in the Equity Offering shall be further reduced by an amount necessary to reduce the Cost of Capital to \$27.5 million on an annual basis, subject to a maximum reduction pursuant to this clause of an additional 52,631 Common Units.

(iv) If, after giving effect to subparagraphs (i), (ii) and (iii), the Cost of Capital on the securities necessary to be issued in the Debt Offering and Equity Offering to effect redemption and repurchase of securities described in Section 6.4 and to pay the costs described in Section 7.13(d) not to exceed \$19,139,000 continues to exceed \$27.5 million on an annual basis, and if the holders of the Relevant Securities agree to accept at least \$5 million less than the maximum redemption and repurchase amount indicated in Sections 6.4(b), (c) and (d), and if a reduction in the size of the Equity Offering to reflect the lower proceeds required does not eliminate any remaining Excess Cost, then for purposes of determining Cost of Capital, the number of Common Units deemed issued in the Equity Offering shall be further reduced by an amount necessary to reduce the Cost of Capital to \$27.5 million on an annual basis, subject to a maximum reduction pursuant to this clause of an additional 52,631 Common Units.

"Custody Agreement" shall mean the Custody Agreement among the Petro Insider's and American Stock Transfer and Trust substantially in the form annexed to the Exchange Agreement.

"Dain Rauscher Wessels" shall mean Dain Rauscher Wessels, a division of Dain Rauscher Incorporated.

"Debt Offering" shall mean a public or private offering by a wholly owned subsidiary of Star Propane of nonconvertible debt securities with gross proceeds of not more than \$90 million with total underwriting discounts and commissions or placement agent fees not to exceed 3% of the aggregate principal amount offered to the public, the proceeds of which shall be used to refinance a portion of the Public Debt.

"Debt Offering Memorandum" shall have the meaning set forth in Section 6.3(a).

"Debt Registration Statement" shall have the meaning set forth in Section 6.3(a).

"Designated Percentage" shall mean a percentage of between 0% and 100% recommended by the Chief Financial Officer of Petro and approved by the Special Committee, not more than 10 business days and not less than two business days before the Closing Date.

"DGCL" shall mean the Delaware General Corporation Law.

"Disclosure Schedule" shall have the meaning set forth in Section 5.1.

"Dissenting Common Holders" shall mean Petro shareholders who comply with all provisions of the MBCA concerning their right to object to and dissent from the Merger and demand "fair value" for their shares.

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"Effective Time" shall have the meaning set forth in Section 2.1(b).

"Environmental Laws" shall mean all applicable local, state and federal environmental, health and safety laws and regulations, including, without limitation, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation, and Liability Act, the Clean Water Act, the Federal Clean Air Act, and the Occupational Safety and Health Act, each as amended, regulations promulgated thereunder, and state counterparts.

"Equity Registration Statement" shall have the meaning set forth in Section 6.3(a).

"Equity Offering" shall mean a public offering by Star Partners of Common Units or Senior Subordinated Units with gross proceeds of not more than \$170

million, as determined by Petro (excluding any proceeds received from the exercise of the underwriters' over-allotment option, which will not exceed 15% of the number of Common Units or Senior Subordinated Units initially issued in the public offering), with total underwriting discounts and commissions not to exceed 5% of the aggregate price to the public.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate" shall have the meaning set forth in Section 5.3(1)(iv).

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

"Exchange Agent" shall mean American Stock Transfer & Trust Company or such other entity as may be selected by Star Partners subject to the reasonable approval of Petro.

"Exchange Agreement" shall mean the Exchange Agreement among the Petro Insiders and Star Partners dated as of October 17, 1998, as the same may be amended from time to time by the written consent of all parties thereto.

"Exchange Fund" shall have the meaning set forth in Section 3.4(a).

"General Partner" shall mean Star Gas Corporation, a Delaware corporation, and its successors and permitted assigns as general partner of Star Partners and Star Propane.

"General Partner Units" shall mean the general partner units representing a general partner interest in Star Partners having the rights and obligations specified with respect to General Partner Units in the Amended and Restated Partnership Agreement.

"HSRA" shall mean the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations thereunder.

"Indemnified Party" shall have the meaning set forth in Section 6.13(a).

"Joint Proxy Statement" shall have the meaning set forth in Section 6.3(a).

"Junior Preferred Stock" shall mean Petro's 1998 Junior Convertible Preferred Stock.

"Junior Subordinated Units" shall mean the junior subordinated units representing limited partner interests of Star Partners having the rights and obligations specified with respect to Junior Subordinated Units in the Amended and Restated Partnership Agreement.

"Lien" shall mean any charge, mortgage, pledge, security interest, restriction, claim, lien, or encumbrance.

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"MBCA" shall mean the Minnesota Business Corporation Act.

"Material Adverse Effect" shall mean, with respect to either Petro or Star Partners, any effect that (i) is material and adverse to the financial position, results of operations, business or prospects of Petro and its Subsidiaries taken as a whole, or Star Partners and its Subsidiaries taken as a whole, respectively, or (ii) would materially impair the ability of Petro or Star Partners, respectively, to perform its obligations under this Agreement or otherwise materially threaten or materially impede the consummation of the Merger and the other transactions contemplated by this Agreement; provided, however, that Material Adverse Effect shall not be deemed to include the impact of (a) actions or omissions of Petro or Star Partners taken with the prior written consent of Petro or the Special Committee, as applicable, in connection with the transactions contemplated hereby (as long as the material facts known to the requesting party concerning such actions or omissions were disclosed to the consenting party at the time it gave its consent), (b) circumstances affecting home heating oil companies or propane companies generally, and (c) the effects of the Merger and compliance by either party with the provisions of this Agreement on the business, financial condition or results of operations of such party and its Subsidiaries, or the other party and its Subsidiaries, as the case may be.



"Meeting" shall have the meaning set forth in Section 6.2.

"Merger" shall have the meaning set forth in the recitals to this Agreement and in Section 2.1(a).

"Merger Consideration" shall have the meaning set forth in Sections 2.1(a) and 3(1).

"Merger Registration Statement" shall have the meaning set forth in Section 6.3(a).

"Multiemployer Plans" shall have the meaning set forth in Section 5.3(1)(iii).

"New Certificates" shall have the meaning set forth in Section 3.4(a).

"Newco" shall mean Petro Holdings Inc., a Minnesota corporation and a wholly owned subsidiary of Parentco.

"Non-Compliance Event" shall have the meaning set forth in Section 5(3)(i)(i).

"Non-Compliance Notification" shall have the meaning set forth in Section 5(3)(i)(iii).

"NYSE" shall mean the New York Stock Exchange.

"Old Subordinated Units" shall mean the subordinated units representing limited partner interests of Star Partners having the rights and obligations specified with respect to Subordinated Units in the Partnership Agreement.

"Operating Partnership Agreement" shall mean the Agreement of Limited Partnership of Star Propane, as in effect immediately prior to the Effective Time.

"Operating Partnership Agreement Amendments" shall mean the amendments to the Operating Partnership Agreement effected in the Amended and Restated Operating Partnership Agreement.

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"Parentco" shall mean Star/Petro, Inc., a Minnesota corporation and a wholly owned subsidiary of the Star Propane.

"Partnership Agreement" shall mean the Agreement of Limited Partnership of Star Partners, as in effect immediately prior to the Effective Time.

"Partnership Agreement Amendments" shall mean the amendments to the Partnership Agreement effected in the Amended and Restated Partnership Agreement.

"Pension Plan" shall have the meaning set forth in Section 5.3(1)(iii).

"Permitting Violation" shall have the meaning set forth in Section 5(3)(i)(ii).

"Person" or "person" shall mean any individual, bank, corporation, partnership, limited liability company, association, joint-stock company, business trust or unincorporated organization.

"Petro Class A Common Stock" means the Class A Common Stock, par value \$.10 per share of Petro.

"Petro Class B Common Stock" means the Class B common Stock, par value \$.10 per share of Petro.

"Petro Class C Common Stock" means the Class C Common Stock, par value \$.10 per share of Petro.

"Petro Common Stock" shall mean shares of Petro Class A Common Stock and Class C Common Stock without distinction as to class.

"Petro Conveyance Agreement" shall mean the Conveyance and Contribution

Agreement among Petro, Star Partners and Star Propane to be entered into as of the Closing Date substantially in the form of Exhibit C.

"Petro Directors" shall mean the members of the Board of Directors of Petro.

"Petro's Disclosure Schedule" shall mean the Disclosure Schedule delivered by Petro pursuant to Section 5.1.

"Petro Insiders" shall mean Irik P. Sevin, Audrey L. Sevin, Phillip Ean Cohen, Thomas J. Edelman, Richard O'Connell, Brentwood Corp., Gabes S.A., Minneford Corp., Fernando Montero, M.M. Warburg & Co., Hanseatic Corp., Hanseatic Americas LDC, Barcel Corp., Hubertus Langen, Tortosa GmbH, Paul Biddelman and United Capital Corp.

"Petro Meeting" shall have the meaning set forth in Section 6.2.

"Petro Preferred Stock" shall mean collectively the Junior Preferred Stock, the Private Preferred Stock and the Public Preferred Stock.

"Petro Stock Option" shall have the meaning set forth in Section 3.7.

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"Petro Stock Option Plans" shall have the meaning set forth in Section 3.7.

"Plans" shall have the meaning set forth in Section 5(3)(1)(iii).

"Previously Disclosed" by a party shall mean information set forth in its Disclosure Schedule.

"Private Debt" means Petro's 10.90% Senior Notes due October 1, 2002.

"Private Preferred Stock" shall mean Petro's 1989 Preferred Stock due 1999.

"Public Debt" means Petro's 10 1/8% Subordinated Notes due 2003, Petro's 9 3/8% Subordinated Debentures due 2006 and Petro's 12 1/4% Subordinated Debentures due 2005.

"Public Preferred Stock" means Petro's 12 7/8% Series C Exchangeable Preferred Stock due 2009.

"Registration Statements" shall have the meaning set forth in Section 6.3.

"Regulatory Authorities" shall have the meaning set forth in Section 5.3(h)(ii).

"Relevant Securities" shall mean the 1989 Preferred Stock, the Public Debt and the Public Preferred Stock.

"Restructuring Transactions" shall mean the following, collectively:

1. the sale of certain assets (the "Transferred Assets") by Petro or Subsidiaries of Petro to Star Propane in exchange for a note (the "Bridge Note"), as contemplated by the Petro Conveyance Agreement;

2. the sale by the General Partner to Petro of its general partner interests in Star Partners and Star Propane and, its 2,396,078 Old Subordinated Units and its 60,727 Common Units;

3. the assignment by Petro to Star Partners of all of its general partner interest in Star Propane (other than a portion of such interest with a value of \$1,000), all of its general partner interest in Star Partners (other than a portion of such interest with a value of \$1,000) and its 2,396,078 Old Subordinated Units in exchange for 42,046 newly issued Common Units, 1,718,795 newly issued Senior Subordinated Units and a promissory note in an amount equal to the excess of the value of the Old Subordinated Units and general partner interests assigned to Star Partners over the value of the Common Units and Senior Subordinated Units issued in exchange therefor;

4. the contribution by certain Petro Insiders of 2,256,471 shares of Class A Common Stock and Class C Common Stock (the "Insider Stock") to a newly formed Delaware limited liability company ("Star Gas LLC") in

exchange for all the member interests in Star Gas LLC as contemplated in the Exchange Agreement, the formation certificate and operating agreement to be subject in form and substance to the approval of the Special Committee;

5. the contribution by Star Gas LLC of 11,280 shares of Class A Common Stock and Class C Common Stock to Star Propane in exchange for a .01% general partner interest in Star Propane as contemplated by the Star LLC Conveyance Agreement;

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6. the contribution by Star Gas LLC of 2,245,191 shares of Class A and Class C Common Stock to Star Partners, in exchange for a 1.99% general partner interest in Star Partners (represented by 321,467 General Partner Units, subject to adjustment as provided below) as contemplated by the Star LLC Conveyance Agreement;

7. the contribution by certain of the Petro Insiders to Star Partners of 3,005,972 shares of Class A and Class C Common Stock in exchange for [430,395] Junior Subordinated Units and 6,571,740 shares of Class A and Class C Common Stock in exchange for [772,705] Senior Subordinated Units, as contemplated in the Exchange Agreement;

8. the contribution by Star Partners of the Petro Common Stock owned by it to Star Propane;

9. the contribution by Star Propane to Parentco of the Transferred Assets, the stock of Petro and the stock of Stellar Propane Corp. in exchange for all the capital stock of Parentco and the assumption by Parentco of \$85 million of Star Propane's 8.04% First Mortgage Notes and \$11 million of Star Propane's 7.17% First Mortgage Notes;

10. the contribution by Parentco of the Petro Common Stock and the Transferred Assets owned by it to Newco free of any liability with respect to the outstanding First Mortgage Notes of Star Partners; and

11. the contribution by Newco of the Petro Common Stock owned by it to Mergeco.

The number of General Partner Units and the number of Junior Subordinated Units and the number of shares of Petro Common Stock to be transferred for each shall be changed, if necessary, so that the number of General Partners Units (including the .01% general partner interest in Star Propane) to be outstanding following the Merger and the Equity Offering will be equal to 2% of the total partnership units outstanding and the total number of General Partner Units and Junior Subordinated Units will equal 753,477.

"Rights" shall mean, with respect to any person, securities or obligations convertible into or exchangeable for, or giving any person any right to subscribe for or acquire, or any options, calls or commitments relating to, equity securities of such person.

"SEC" shall mean the Securities and Exchange Commission.

"SEC Documents" shall have the meaning set forth in Section 5.3(g).

"Securities Act" shall mean the Securities Act of 1933, as amended, and the rules and regulations thereunder.

"Senior Subordinated Units" shall mean the senior subordinated units representing limited partner interests of Star Partners having the rights and obligations specified with respect to Senior Subordinated Units in the Amended and Restated Partnership Agreement.

"Significant Subsidiaries" shall have the meaning ascribed to such term in Section 1-01(w) of Regulation S-X under the Securities Act.

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"Special Committee" means the special committee of the Board of Directors of

the General Partner consisting of William Nicoletti and Elizabeth Lanier.

"Star Gas LLC" shall mean Star Gas LLC, a newly-created Delaware limited liability company that will succeed Star Gas Corporation as the general partner of the partnership.

"Star LLC Conveyance Agreement" shall mean the Conveyance and Contribution Agreement among Star Gas LLC, Star Propane and Star Partners to be entered into as of the Closing Date substantially in the form of Exhibit D.

"Star Partners" shall have the meaning set forth in the introductory paragraph to this Agreement.

"Star Partners' Disclosure Schedule" shall mean the Disclosure Schedule delivered by Star Partners pursuant to Section 5.1.

"Star Partners Meeting" shall have the meaning set forth in Section 6.2.

"Star Propane" shall have the meaning set forth in the introductory paragraph to this Agreement.

"Star Propane Debt Conditions" shall mean the Holders of Star Propane's 8.04% First Mortgage Notes due 2009, Star Propane's 7.17% First Mortgage Notes due 2010 and Star Propane's outstanding bank credit facilities shall have consented to the execution, delivery and performance of this Agreement by Star Propane or shall have entered into amendments permitting the execution, delivery and performance of this Agreement by Star Propane without violation of the terms of such indebtedness and without a requirement that such indebtedness be repurchased (or an offer be made to purchase such indebtedness).

"Subsidiary" shall have the meaning ascribed to such term in Rule 1-02 of Regulation S-X under the Securities Act.

"Surviving Corporation" shall have the meaning set forth in Section 2.1(a).

"Takeover Law" means any "fair price", "moratorium", "control share acquisition" or any other anti-takeover statute or similar statute enacted under state or federal law.

"Takeover Proposal" shall mean, with respect to Petro, any tender or exchange offer, proposal for a merger, consolidation or other business combination involving Petro or any of its Subsidiaries or any proposal or offer to acquire in any manner a substantial equity interest in, or a substantial portion of the assets of, Petro or any of its Subsidiaries other than the transactions contemplated or permitted by this Agreement.

"Tax Returns" shall have the meaning set forth in Section 5.3(o).

"Taxes" shall mean all taxes, charges, fees, levies or other assessments, including, without limitation, all net income, gross income, gross receipts, sales, use, ad valorem, goods and services, capital, transfer, franchise, profits, license, withholding, payroll, employment, employer health, excise, estimated, severance, stamp, occupation, property or other taxes, custom duties, fees, assessments or charges of any kind whatsoever, together with any interest and any penalties, additions to tax or additional amounts imposed by any taxing authority.

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"Treasury Shares" shall mean shares of Petro Common Stock owned by Petro at the Effective Time.

"Working Capital" when applied to Petro, shall mean Petro's current assets minus current liabilities determined in accordance with generally accepted accounting principles applied on a consistent basis provided that (i) restricted cash shall be excluded from current assets to the extent such restricted cash remains restricted immediately following the Effective Time and relates to indebtedness due in more than one year, (ii) draws under Petro's bank working capital facility shall be included in current liabilities, (iii) the current maturities of all other Petro long-term indebtedness and preferred stock shall be excluded from current liabilities, and (iv) expenses of the type described in Section 7.13(d) shall be included as a current liability to the extent not financed in the Debt Offering or the Equity Offering.

ARTICLE II.  
THE MERGER; EFFECTS OF THE MERGER

2.1. The Merger.

(a) The Surviving Corporation. Subject to the terms and conditions of this Agreement, at the Effective Time, Mergeco shall merge with and into Petro (the "Merger"), the separate corporate existence of Mergeco shall cease and Petro shall survive and continue to exist as a Minnesota corporation (Petro, as the surviving corporation in the Merger, sometimes being referred to herein as the "Surviving Corporation"). Star Partners, with the consent of the Special Committee, may at any time change the method of effecting the Merger (including, without limitation, the provisions of this Article II) if and to the extent it deems such change to be desirable; provided, however, that no such change shall (A) alter or change the amount or kind of consideration to be issued to holders of Petro Common Stock or Petro Preferred Stock as provided for in this Agreement (the "Merger Consideration"), (B) adversely affect the tax treatment of Petro's stockholders as a result of receiving the Merger Consideration or (C) materially impede or delay consummation of the transactions contemplated by this Agreement.

(b) Effectiveness And Effects Of The Merger. Subject to the satisfaction or waiver of the conditions set forth in Article VII in accordance with this Agreement, the Merger shall become effective upon the later to occur of (i) the filing in the office of the Secretary of State of Delaware of a properly executed certificate of merger (the "Certificate of Merger") and (ii) the filing with the Department of State of Minnesota of properly executed articles of merger (the "Articles of Merger"), or such later date and time as may be set forth in the Certificate of Merger and the Articles of Merger (the "Effective Time"), in accordance with the DGCL and the MBCA. The Merger shall have the effects prescribed in DGCL and the MBCA.

(c) Certificate Of Incorporation And By-Laws. The certificate of incorporation and by-laws of Petro in effect immediately prior to the Effective Time shall be the certificate of incorporation and bylaws of the Surviving Corporation, until duly amended in accordance with applicable law.

(d) Directors of the Surviving Corporation. The directors of Petro who are also employees of Petro immediately prior to the Effective time shall be the directors of the Surviving Corporation as of the Effective Time.

(e) Officers of the Surviving Corporation. The officers of Petro immediately prior to the Effective Time shall be the officers of the Surviving Corporation as of the Effective Time.

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2.2. Effective Date And Closing. Subject to the satisfaction or waiver of the conditions as set forth in Article VII in accordance with this Agreement, the closing of the Merger and the other transactions contemplated hereby (the "Closing") shall occur on (a) the third business day to occur after the day on which the last of the conditions set forth in Article VII shall have been satisfied or waived in accordance with the terms of this Agreement provided that such date shall not be earlier than February 15, 1999 or (b) such other date to which the parties may agree in writing. The date on which the Closing occurs is referred to as the "Closing Date." The Closing of the transactions contemplated by this Agreement shall take place at the offices of Phillips Nizer Benjamin Krim & Ballon LLP, 666 Fifth Avenue, New York, New York 10103 at 10:00 a.m. New York City time on the Closing Date.

ARTICLE III.  
MERGER CONSIDERATION; EXCHANGE PROCEDURES

3.1. Merger Consideration. Subject to the provisions of this Agreement, at the Effective Time, by virtue of the Merger and without any action on the part of any holder of capital stock of any party:

(a) Each share of the common stock, par value \$.01 per share, of Mergeco outstanding immediately prior to the Effective Time shall be converted into and become one fully paid and nonassessable share of Common Stock, par value \$.10, of the Surviving Corporation.

(b) Each Treasury Share and each share of Petro Common Stock owned by

Mergeco shall cease to be outstanding and shall be canceled and retired without payment of any consideration therefor, and no partnership interest of Star Partners or other consideration shall be delivered in exchange therefor.

(c) Each share of Petro Common Stock issued and outstanding immediately prior to the Effective Time (other than Treasury Shares, shares held by Mergeco, and shares of Dissenting Common Holders) shall be converted into the right to receive .13064 fully paid and nonassessable Senior Subordinated Units.

(d) Each share of Junior Preferred Stock issued and outstanding immediately prior to the Effective Time shall be converted into the right to receive .13064 fully paid and nonassessable Common Units.

(e) Each share of Public Preferred Stock issued and outstanding immediately prior to the Effective Time shall be converted into the right to receive \$23 in cash plus accrued and unpaid dividends as of the Effective Time, or such lesser amount as a holder may agree to in writing.

(f) Each share of Petro's Class B Common Stock, \$.10 par value, outstanding immediately prior to the Effective Time, shall be unchanged and shall remain outstanding with the same relative rights, preferences and privileges which it had immediately prior to the Effective Time.

3.2. Rights As Stockholders; Stock Transfers. At the Effective Time, holders of Petro Common Stock, Junior Preferred Stock and Public Preferred Stock shall cease to be, and shall have

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no rights, as stockholders of Petro, other than to receive (a) any dividend or other distribution with respect to such Petro Common Stock, Junior Preferred Stock or Public Preferred Stock with a record date occurring prior to the Effective Time that may have been declared or made by Petro on such shares of Petro Common Stock, Junior Preferred Stock or Public Preferred Stock in accordance with the terms of this Agreement or prior to the date hereof and which remain unpaid at the Effective Time and (b) the consideration provided under this Article III. After the Effective Time, there shall be no transfers on the stock transfer books of the shares of Petro Common Stock or Petro Preferred Stock.

3.3. Fractional Shares. No certificates or scrip representing fractional Common Units or Senior Subordinated Units shall be issued upon the surrender for exchange of Certificates pursuant to this Article III, and, except as provided in Section 3.2 and this Section 3.3, no dividend or other distribution, stock split or interest shall relate to any such fractional security, and such fractional interests shall not entitle the owner thereof to vote or to any rights of a security holder of Star Partners. In lieu thereof, each holder of shares of Petro Common Stock who would otherwise have been entitled to a fraction of a Senior Subordinated Unit upon surrender of Certificates for exchange pursuant to this Article III will be paid an amount in cash (without interest) equal to the closing price of the Senior Subordinated Units on the first day of trading thereof on the NYSE (as reported in The Wall Street Journal or, if not reported therein, in another authoritative source) multiplied by the fractional interest the holder would otherwise be entitled to receive, and each holder of shares of Junior Preferred Stock who would otherwise have been entitled to a fraction of a Common Unit upon surrender of Certificates for exchange pursuant to this Article III will be paid an amount in cash (without interest) equal to such fraction multiplied by the average of the last sales prices of the Common Units on the New York Stock Exchange Composite Transactions tape (as reported in The Wall Street Journal or, if not reported therein, in another authoritative source) for the five consecutive trading days ending immediately prior to the second trading day prior to the Closing Date.

3.4. Exchange Procedures. (a) At or prior to the Effective Time, Star Partners shall deposit, or shall cause to be deposited, with the Exchange Agent, for the benefit of the holders of the Petro Common Stock and the Junior Preferred Stock for exchange in accordance with this Article III (i) certificates representing the Senior Subordinated Units and Common Units ("New Certificates") issuable pursuant to Section 3.1 in exchange for outstanding shares of Petro Common Stock and Junior Preferred Stock, (ii) the amount of cash necessary to be distributed to the holders of Public Preferred Stock in

accordance with the foregoing sections of this Article III and (iii) an amount of cash to be paid in lieu of fractional Senior Subordinated Units and Common Units as provided herein (such cash and New Certificates, together with any dividends or distributions with respect thereto (but without any interest thereon), being hereinafter referred to as the "Exchange Fund").

(b) Promptly after the Effective Time, the Exchange Agent shall mail to each holder of record of a certificate or certificates which, immediately prior to the Effective Time, represented outstanding shares of Petro Common Stock and Junior Preferred Stock (the "Certificates"), which holder's shares of Petro Common Stock or Junior Preferred Stock were converted into the right to receive Senior Subordinated Units or Common Units pursuant to Section 3.1 (i) a letter of transmittal, which shall specify that delivery shall be effected and risk of loss and title to the Certificates shall pass only

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upon delivery of the Certificates to the Exchange Agent, and shall be in such form and have such other provisions as Star Partners may reasonably specify and (ii) instructions for use in effecting the surrender of the Certificates in exchange for certificates representing Senior Subordinated Units and Common Units. Upon surrender of a Certificate for cancellation to the Exchange Agent, together with such letter of transmittal, duly executed, and any other required documents, the holder of such Certificate shall be entitled to receive in exchange therefor a New Certificate representing the number of whole Senior Subordinated Units or Common Units that such holder has the right to receive pursuant to this Article III, and cash in lieu of any fractional Senior Subordinated Units or Common Units, as contemplated by Section 3.3, and the Certificate so surrendered shall forthwith be canceled. In the event of a transfer of ownership of Petro Common Stock or Junior Preferred Stock that is not registered in the transfer records of Petro, a certificate representing the proper number of Senior Subordinated Units or Common Units may be issued to a transferee only on the condition that the Certificate formerly representing such shares of Petro Common Stock or Junior Preferred Stock is presented to the Exchange Agent, properly endorsed, and accompanied by all documents required to evidence and effect such transfer and by evidence that any applicable stock transfer taxes have been paid or that no such taxes are applicable. The Exchange Agent shall not be entitled to vote or exercise any rights of ownership with respect to Senior Subordinated Units or Common Units held by it from time to time hereunder, except that it shall receive and hold all dividends or other distributions paid or distributed with respect thereto for the account of persons entitled thereto.

(c) If any Certificate shall have been lost, stolen, mislaid or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen, mislaid or destroyed, and if required by Star Partners, the posting by such Person of a bond in such reasonable amount as Star Partners may direct as indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent will issue in exchange for such lost, stolen, mislaid or destroyed Certificate the consideration deliverable in respect thereof as determined in accordance with this Article III.

(d) Notwithstanding the foregoing, neither the Exchange Agent nor any party hereto shall be liable to any former holder of Petro Common Stock or Junior Preferred Stock for any amount properly delivered to a public official pursuant to applicable abandoned property, escheat or similar laws.

(e) No distributions with respect to the Common Units or Senior Subordinated Units declared or made after the Effective Time with a record date occurring after the Effective Time shall be paid to the holder of any unsurrendered old Certificate, and no cash payment in lieu of fractional Senior Subordinated Units or Common Units shall be paid to any such holder pursuant to Section 3.3 until the holder thereof shall surrender such Certificates in accordance with this Article III. After the surrender of certificates in accordance with this Article III, and subject to the effect of applicable laws, there shall be paid to the holder of Senior Subordinated Units or Common Units issued in exchange therefor, without interest, (i) at the time of such surrender, the amount of distributions with a record date after the Effective Time theretofore payable with respect to such Senior Subordinated Units or Common Units and not paid, less the amount of any withholding taxes which may be required thereon, and (ii) at the appropriate payment date, the amount of distributions with a record date after the Effective Time but prior to surrender and a payment date subsequent to surrender

payable with respect to such Senior Subordinated Units or Common Units, less the amount of any withholding taxes which may be required thereon.

(f) Any portion of the Exchange Fund that remains unclaimed by the stockholders of Petro for twelve months after the Closing shall be paid to Star Partners. Any stockholders of Petro who have not theretofore complied with this Article III shall thereafter look only to Star Partners for payment of the Common Units or Senior Subordinated Units, cash in lieu of any fractional Common Units or Senior Subordinated Units and unpaid distributions on the Common Units and the Senior Subordinated Units deliverable in respect of each share of Petro Common Stock and Junior Preferred Stock such stockholder holds as determined pursuant to this Agreement, in each case, without any interest thereon.

3.5. Anti-Dilution Provisions. In the event of any subdivisions, reclassifications, recapitalizations, splits, combinations or dividends in the form of equity interests with respect to the Common Units, and the Petro Common Stock (in each case, as permitted pursuant to Section 4.3) the number of Senior Subordinated Units and Common Units to be issued in the Merger and the average closing sales prices of the Common Units determined in accordance with Section 3.3 will be correspondingly adjusted.

3.6. Shares of Dissenting Common Holders. Any issued and outstanding shares of Petro Common Stock held by Dissenting Common Holders shall not be converted as described in Section 3.1(c) but shall from and after the Effective Time represent only the right to receive such consideration as may be determined to be due to such Dissenting Common Holder pursuant to the MBCA; provided, however, that shares of Petro Common Stock outstanding immediately prior to the Effective Time and held by a Dissenting Common Holder who shall, after the Effective Time, withdraw his demand for fair value or lose his dissenters' rights pursuant to the MBCA, shall be deemed to be converted, as of the Effective Time, into the right to receive Senior Subordinated Units as specified in Section 3.1(c), without interest.

3.7. Options. (a) At the Closing, all employee and director stock options to purchase shares of Petro Common Stock (each, a "Petro Stock Option"), which are then outstanding and unexercised, shall cease to represent a right to acquire shares of Petro Stock. To the extent any such stock option is not vested at the Effective Time and does not become vested by reason of the Merger, such stock option shall be cancelled. To the extent that any stock option is vested as of the Effective Time or becomes vested by reason of the Merger, such stock option to the extent so vested shall be converted automatically into options to purchase .11758 Senior Subordinated Units at a price equal to the original exercise price divided by .13064 and Star Partners shall assume each such Petro Stock Option subject to the terms of any of the stock option plans listed under "Stock Option Plans" in Section 5.3 of Petro's Disclosure Schedule (collectively, the "Petro Stock Option Plans"), and the agreements evidencing grants thereunder, including but not limited to the accelerated vesting of such options which shall occur in connection with and by virtue of the Merger as and to the extent required by such plans and agreements.

ARTICLE IV.  
ACTIONS PENDING MERGER

From the date hereof until the Effective Time, except as expressly contemplated by this Agreement, (a) without the prior written consent of the Special Committee (which consent shall not be unreasonably withheld or delayed) Petro will not, and will cause each of its Subsidiaries not to, and (b) without the prior written consent of Petro (which consent shall not be unreasonably withheld or delayed) Star Partners will not, and will cause each of its Subsidiaries not to:

4.1. Ordinary Course. Conduct the business of it and its Subsidiaries other than in the ordinary and usual course or, to the extent consistent therewith, fail to use reasonable best efforts to preserve intact its business organizations, goodwill and assets and maintain its rights, franchises and existing relations with customers, suppliers, employees and business associates, or take any action that would (a) adversely affect the ability of



any party to obtain any approvals required under the HSRA for the transactions contemplated hereby or (b) adversely affect its ability to perform any of its material obligations under this Agreement.

4.2. Capital Stock. In the case of Petro and its Subsidiaries, other than (a) pursuant to stock options Previously Disclosed in its Disclosure Schedule, (b) pursuant to the Petro dividend reinvestment program or (c) as otherwise set forth on Section 4.2 of Petro's Disclosure Schedule, (i) issue, sell or otherwise permit to become outstanding, or authorize the creation of, any additional shares of capital stock, any stock appreciation rights or any Rights, (ii) enter into any agreement with respect to the foregoing or (iii) permit any additional shares of capital stock to become subject to new grants of employee stock options, stock appreciation rights or similar stock-based employee rights.

4.3. Dividends, Distributions. (a) Make, declare or pay any dividend (other than (i) in the case of Star Propane, distributions of Available Cash (as defined in the Operating Partnership Agreement) to its partners, (ii) in the case of Star Partners, regular quarterly cash distributions of Available Cash on the Common Units, Subordinated Units and general partner interest of Star Partners and (iii) in the case of Petro, regular quarterly dividends on the Petro Preferred Stock), in each case in the ordinary course consistent with past practice), on or in respect of, or declare or make any distribution on any shares of its equity securities other than as Previously Disclosed, (b) split, combine or reclassify any of its capital stock or issue or authorize or propose the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock or (c) repurchase, redeem or otherwise acquire, or permit any of its Subsidiaries to purchase, redeem or otherwise acquire any shares of its capital stock, except as required by the terms of its securities outstanding on the date hereof or as contemplated by any existing Compensation and Benefit Plan.

4.4. Compensation; Employment Agreements. In the case of Petro and its Subsidiaries, except as set forth on Section 4.4 of Petro's Disclosure Schedule, enter into or amend any written employment, severance or similar agreements or arrangements with any of its directors, officers or employees, or grant any salary or wage increase or increase any employee benefit (including incentive or bonus payments), except for (a) normal individual increases in compensation to employees (other than officers and directors) in the ordinary course of business consistent with past practice or (b) other changes as are provided for herein or as may be required by law or to

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satisfy contractual obligations existing as of the date hereof or (c) additional grants of awards to newly hired employees consistent with past practice.

4.5. Benefit Plans. In the case of Petro and its Subsidiaries, except as set forth on Section 4.5 of the Petro Disclosure Schedule, enter into or amend (except as may be required by applicable law, to satisfy contractual obligations existing as of the date hereof or amendments which, either individually or in the aggregate, would not reasonably be expected to result in a material liability to Petro or its Subsidiaries) any pension, retirement, stock option, stock purchase, savings, profit sharing, deferred compensation, consulting, bonus, group insurance or other employee benefit, incentive or welfare contract, plan or arrangement, or any trust agreement related thereto, in respect of any of its directors, officers or other employees, including, without limitation, taking any action that accelerates the vesting or exercise of any benefits payable thereunder.

4.6. Acquisitions And Dispositions. In the case of Petro and its Subsidiaries, and except for the sale of the Transferred Assets to Star Propane, sell, lease, dispose of or discontinue any portion of its assets, business or properties, which is material to it and its Subsidiaries taken as a whole, or acquire, by merger or otherwise, or lease (other than by way of foreclosures or acquisitions of control in a bona fide fiduciary capacity or in satisfaction of debts previously contracted in good faith, in each case in the ordinary and usual course of business consistent with past practice) any assets or all or any portion of, the business or property of any other entity which, in either case, is material to it and its Subsidiaries taken as a whole, or would be likely to have a Material Adverse Effect on the ability of the parties to consummate the transactions contemplated by this Agreement or to delay materially the Effective Time. In the case of Star Partners, Star Partners will

not, and will cause its Subsidiaries not to, make any acquisition or take any other action which would have a Material Adverse Effect on its ability to consummate the transactions contemplated by this Agreement.

4.7. Amendments. In the case of Petro, amend its Articles of Incorporation or By-laws.

4.8. Accounting Methods. Implement or adopt any change in its accounting principles, practices or methods, other than as may be required by law or generally accepted accounting principles.

4.9. Insurance. Fail to use reasonable best efforts to maintain with financially responsible insurance companies, insurance in such amounts and against such risks and losses as has been customarily maintained by it in the past.

4.10. Notification. Fail to promptly notify the other of any material change in its condition (financial or otherwise) or business or any material litigation or material governmental complaints, investigations or hearings or the breach in any material respect of any of its representations or warranties contained herein.

4.11. Taxes. (a) Make or rescind any material express or deemed election relating to Taxes unless it is reasonably expected that such action will not materially and adversely affect it, including elections for any and all joint ventures, partnerships, limited liability companies, working interests or other investments where it has the capacity to make such binding election, (b) settle or compromise any material claim, action, suit, litigation, proceeding, arbitration, investigation, audit or controversy relating to Taxes, except where such settlement or compromise will not materially and adversely

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affect it or (c) change in any material respect any of its methods of reporting income, or deductions for federal income tax purposes from those employed in the preparation of its federal income tax return for the most recent taxable year for which a return has been filed, except as may be required by applicable law or except for such changes that are reasonably expected not to materially adversely affect it.

4.12. Debt, Capital Expenditures and the Like. In the case of Petro, except as provided in Section 6.4, (a) incur any indebtedness for borrowed money (except for working capital under existing credit facilities) or guarantee any such indebtedness of others, (b) enter into any material lease (whether operating or capital), (c) create any material mortgages, liens, security interests or other encumbrances on the property of Petro or its Subsidiaries in connection with any pre-existing indebtedness, new indebtedness or lease or (d) make or commit to make aggregate capital expenditures in excess of \$2.0 million over Petro's fiscal 1998 capital expenditure budget identified in Section 4.12 of the Petro Disclosure Schedule and Previously Disclosed to Star Gas.

4.13. No Dissolution. Authorize, recommend, propose or announce an intention to adopt a plan of complete or partial dissolution or liquidation.

4.14. Adverse Actions. Knowingly take any action that is intended or is reasonably likely to result in (a) any of its representations and warranties set forth in this Agreement being or becoming untrue in any material respect at any time prior to the Closing, (b) any of the conditions to the Merger set forth in Article VII not being satisfied or (c) a material violation of any provision of this Agreement except, in each case, as may be required by applicable law.

4.15. Agreements. Agree or commit to do anything prohibited by Sections 4.1 through 4.14.

ARTICLE V.  
REPRESENTATIONS AND WARRANTIES

5.1. Disclosure Schedule. On or prior to the date hereof, Star Partners has delivered to Petro and Petro has delivered to Star Partners a schedule (respectively, its "Disclosure Schedule") setting forth, among other things, items the disclosure of which is necessary or appropriate in relation to any or all of its representations and warranties; provided, however, that (a) no such item is required to be set forth in a Disclosure Schedule as an exception to a

representation or warranty if its absence is not reasonably likely to result in the related representation or warranty being deemed untrue or incorrect under the standard established by Section 5.2, and (b) the mere inclusion of an item in a Disclosure Schedule shall not be deemed an admission by a party that such item represents a material exception or fact, event or circumstance or that such item is reasonably likely to result in a Material Adverse Effect.

5.2. Standard. No representation or warranty of Star Partners or Petro contained in Section 5.3 (except Sections 5.3(b), 5.3(c) (i), 5.3(c) (ii), 5.3(d) and 5.3(e)) shall be deemed untrue or incorrect, and no party hereto shall be deemed to have breached a representation or warranty, as a consequence of the existence of any fact, circumstance or event unless such fact, circumstance or event, individually or taken together with all other facts, circumstances or events inconsistent with any paragraph of Section 5.3, has had or is reasonably expected to have a Material Adverse Effect.

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5.3. Representations and Warranties. Subject to Sections 5.1 and 5.2 and except as Previously Disclosed, Petro hereby represents and warrants to Star Partners, and Star Partners hereby represents and warrants to Petro, to the extent applicable, in each case with respect to itself and its Subsidiaries, as follows:

(a) Organization, Standing and Authority. Such party is a corporation, or in the case of Star Partners and Star Propane, a limited partnership, duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization. Such party (i) is duly qualified to do business and is in good standing in the states of the United States where its ownership or leasing of property or the conduct of its business requires it to be so qualified and (ii) has in effect all federal, state, local, and foreign governmental authorizations and permits necessary for it to own or lease its properties and assets and to carry on its business as it is now conducted.

Such party (i) is duly qualified to do business and is in good standing in the states of the United States where its ownership or leasing of property or the conduct of its business requires it to be so qualified and (ii) has in effect all federal, state, local, and foreign governmental authorizations and permits necessary for it to own or lease its properties and assets and to carry on its business as it is now conducted.

(b) Shares. (i) In the case of Petro, as of the date hereof, the authorized capital stock of Petro consists solely of 81,909,722 shares of stock, \$.10 par value, of which, as of the date hereof, 23,964,962 shares of Class A Common Stock, 11,228 shares of Class B Common Stock, 2,597,519 shares of Class C Common Stock, 41,668 shares of Private Preferred Stock, no more than 797,000 shares of Junior Preferred Stock and 1,200,000 shares of Public Preferred Stock are issued and outstanding. Such outstanding shares were duly authorized and are validly issued and fully paid and non-assessable and are not subject to any preemptive or similar rights (and were not issued in violation of any preemptive or similar rights). The holder of the Petro Private Preferred Stock has consented to the redemption thereof on or prior to the Closing Date at a price equal to \$4.167 million plus accrued and unpaid dividends.

(ii) In the case of Star Partners, as of the date hereof, there are 3,858,999 Common Units and 2,396,078 Old Subordinated Units issued and outstanding, and all of such Common Units and Old Subordinated Units and the limited partner interests represented thereby were duly authorized and validly issued in accordance with the Partnership Agreement and are fully paid (to the extent required under the Partnership Agreement) and nonassessable (except as such nonassessability may be affected by matters described in the Merger Registration Statement under the caption "Description of the Partnership Agreement--Limited Liability"). As of the date hereof, the General Partner owns a 1% general partner interest in Star Partners, and such general partner interest was duly authorized and validly issued in accordance with the Partnership Agreement. As of the date hereof, Star Partners owns a 98.9899% limited partner interest in Star Propane, and such limited partner interest was duly authorized and validly issued in accordance with the Operating Partnership Agreement and is fully paid (to the extent required under the Operating Partnership Agreement) and nonassessable (except as such nonassessability may be affected by matters described in the Merger Registration Statement under the caption "Description of the Partnership Agreement--Limited Liability"). As of the date hereof, the General Partner owns a 1.0101% general partner interest in

partner interest was duly authorized and validly issued in accordance with the Operating Partnership Agreement.

(iii) As of the date hereof, except as Previously Disclosed in Section 5.3(b) of a party's Disclosure Schedule, there are no shares of capital stock (in the case of Petro) or interests (in the case of Star Partners), of such party's equity securities authorized and reserved for issuance, such party does not have any Rights issued or outstanding with respect to its equity securities, and such party does not have any commitment to authorize, issue or sell any such equity securities or Rights, except pursuant to this Agreement. Since December 31, 1997, Petro has not issued any shares of its capital stock or rights in respect thereof or reserved any shares for such purposes except pursuant to plans or commitments Previously Disclosed in Section 5.3(b) of its Disclosure Schedule.

(iv) The number of shares of Petro Common Stock which are issuable and reserved for issuance upon exercise of Petro Stock Options as of the date hereof are Previously Disclosed in Section 5.3(b) of Petro's Disclosure Schedule, and the number of Common Units and Subordinated Units that are issuable upon exercise of any employee or director options to purchase Common Units or Subordinated Units as of the date hereof are Previously Disclosed in Section 5.3 of Star Partners' Disclosure Schedule.

(c) Subsidiaries. (i) (A) Such party has Previously Disclosed in Section 5.3(c) of its Disclosure Schedule a list of all of its Subsidiaries together with the jurisdiction of organization of each such Subsidiary, (B) it owns, directly or indirectly, all of the equity interests of each of its Subsidiaries, (C) no equity interests of any of its Subsidiaries are or may become required to be issued by reason of any Rights, (D) there are no contracts, commitments, understandings or arrangements by which any of such Subsidiaries is or may be bound to sell or otherwise transfer any equity interests of any such Subsidiaries, (E) there are no contracts, commitments, understandings, or arrangements relating to its rights to vote or to dispose of such equity interests, and (F) all of the equity interests of each such Subsidiary held by it or its Subsidiaries are fully paid and nonassessable and are owned by it or its Subsidiaries free and clear of any Liens.

(ii) In the case of the representations and warranties of Petro, other than ownership of its Subsidiaries, Petro does not own beneficially, directly or indirectly, any equity securities or similar interests of any person, or any interest in a partnership or joint venture of any kind.

(iii) Each of such party's Subsidiaries has been duly organized and is validly existing in good standing under the laws of the jurisdiction of its organization and (a) is duly qualified to do business and in good standing in the jurisdictions where its ownership or leasing of property or the conduct of its business requires it to be so qualified and (b) has in effect all federal, state, local, and foreign governmental authorizations and permits necessary for it to own or lease its properties and assets and to carry on its business as it is now conducted.

(d) Corporate or Partnership Power. Such party and each of its Subsidiaries has the corporate power and authority, or in the case of Star Partners and Star Propane the partnership power and authority to carry on its business as it is now being conducted and to own all its properties and assets; and it has the corporate power and authority or, in the case of Star Partners and Star Propane, the partnership power and authority, to execute, deliver and perform its obligations under this Agreement and to consummate the transactions contemplated hereby.

(e) Equityholder Authority. Subject in the case of this Agreement to approval by the holders of a majority of the shares of Petro Class A and Class C Common Stock and Petro Preferred Stock entitled to vote thereon, voting separately by classes the approval of the holders of a majority of the Petro Class A Common Stock which is not owned by Petro Insiders or Affiliates, and by the holders of a majority of the Common Units of Star Partners, excluding Common Units held by Petro and its Affiliates, this Agreement and the transactions contemplated

hereby have been authorized by all necessary corporate action (partnership action in the case of Star Partners and Star Propane), and this Agreement has been duly executed and delivered and is a legal, valid and binding agreement of it, enforceable in accordance with its terms (except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and similar laws of general applicability relating to or affecting creditors' rights or by general equity principles). In the case of Petro, the holders of 100% of the Public Preferred Stock, 100% of the Private Preferred Stock and 100% of the Junior Preferred Stock have granted Petro an irrevocable proxy to vote their shares in favor of the Merger.

(f) No Defaults. Except as Previously Disclosed, subject to receipt of the HSRA approval, the approval of the holders of the Private Debt and 1998 Preferred Stock, the approval of Petro's bank group, the required filings under federal and state securities laws and the approvals contemplated by Article VII, the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby does not and will not (i) constitute a breach or violation of, or result in a default (or an event that, with notice or lapse of time or both, would become a default) under, or result in the termination or in a right of termination or cancellation of, or accelerate the performance required by, any note, bond, mortgage, indenture, deed of trust, license, franchise, lease, contract, agreement, joint venture or other instrument or obligation to which it or any of its Subsidiaries is a party or by which it or any of its Subsidiaries or properties is subject or bound, (ii) constitute a breach or violation of, or a default under, in the case of Petro its articles of incorporation or by-laws and in the case of Star Partners and Star Propane its Agreement of Limited Partnership, (iii) contravene or conflict with or constitute a violation of any provision of any law, rule, regulation, judgment, order or decree binding upon or applicable to it or any of its Subsidiaries, (iv) result in the creation of any Lien on any of its assets or its Subsidiaries' assets or (v) cause the transactions contemplated by this Agreement to be subject to Takeover Laws.

(g) Financial Reports and SEC Documents. Its Annual Report on Form 10-K, for the fiscal year ended December 31, 1997 in the case of Petro and for the fiscal year ended September 30, 1997 in the case of Star Partners, and all other reports, registration statements, definitive proxy statements or information statements filed or to be filed by it or any of its Subsidiaries subsequent to December 31, 1995 under the Securities Act, or under Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act, in the form filed, or to be filed (collectively, its "SEC Documents"), with the SEC (i) complied or will comply in all material respects as to form with the applicable requirements under the Securities Act or the Exchange Act, as the case may be, and (ii) did not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading; and each of the balance sheets contained in or incorporated by reference into any such SEC Document (including the related notes and schedules thereto) fairly presents the financial position of the entity or entities to which it relates as of its date, and each of the statements of

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income and changes in stockholders' equity and cash flows or equivalent statements in the case of Star Partners in such SEC Documents (including any related notes and schedules thereto) fairly presents the results of operations, changes in stockholders' equity and changes in cash flows, as the case may be, of the entity or entities to which it relates for the periods to which it relates, in each case in accordance with generally accepted accounting principles consistently applied during the periods involved, except in each case as may be noted therein, subject to normal year-end audit adjustments in the case of unaudited statements. Except as and to the extent set forth on its balance sheet as of September 30, 1997 (in the case of Star Partners) and December 31, 1997 (in the case of Petro), as of such date, neither it nor any of its Subsidiaries had any liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise) that would be required to be reflected on, or reserved against in, a balance sheet or in the notes thereto prepared in accordance with generally accepted accounting principles consistently applied.

(h) Litigation; Regulatory Action. (i) No litigation, claim or other proceeding before any court or governmental agency is pending against it or any of its Subsidiaries and, to the best of its knowledge, no such litigation, claim or other proceeding has been threatened, other than normal and routine

litigation which is either covered by insurance in amounts sufficient to discharge any likely exposure. There are no outstanding judgments, decrees, injunctions, awards or orders against it or any of its Subsidiaries. Section 5.3(h) of its Disclosure Schedule contains, as of the date of this Agreement, an accurate and complete list of all actions, suits and proceedings pending or, to the best of its knowledge, threatened against it, except as to routine law suits arising in the ordinary course of business involving customer complaints or vehicular accidents which are fully covered by insurance (except for deductible amounts under such insurance policies which if required to be paid would not individually or in the aggregate have a Material Adverse Effect).

(ii) Except as Previously Disclosed, neither it nor any of its Subsidiaries or properties is a party to or is subject to any order, decree, agreement, memorandum of understanding or similar arrangement with, or a commitment letter or similar submission to, any federal or state governmental agency or court or authority or body or the supervision or regulation of it or any of its Subsidiaries (collectively, the "Regulatory Authorities").

(iii) Neither it nor any of its Subsidiaries has been advised by any Regulatory Authority that such Regulatory Authority is contemplating issuing or requesting (or is considering the appropriateness of issuing or requesting) any such order, decree, agreement, memorandum of understanding, commitment letter or similar submission.

(i) Compliance With Laws. Except as set forth in Section 5.3(i) of its Disclosure Schedule, it and each of its Subsidiaries:

(i) in the conduct of its business, is in compliance with all applicable federal, state, local and foreign statutes, laws, regulations, ordinances, rules, judgments, orders or decrees applicable thereto or to the employees conducting such businesses, (any instance of failure to so comply is referred to herein as a "Non-Compliance Event").

(ii) has all permits, licenses, authorizations, orders and approvals of, and has made all filings, applications and registrations with, all Regulatory Authorities that are required in order to permit it to conduct its businesses substantially as presently conducted; all such permits,

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licenses, certificates of authority, orders and approvals are in full force and effect and, to the best of its knowledge, no suspension or cancellation of any of them is threatened (any instance or failure to obtain any of the foregoing and to maintain them in full force and effect is referred to herein as a "Permitting Violation"); and

(iii) has not received, since December 31, 1994, any notification or communication from any Regulatory Authority asserting that it or any of its Subsidiaries is not in compliance with any of the statutes, regulations, or ordinances which such Regulatory Authority enforces or threatening to revoke any license, franchise, permit, or governmental authorization (nor, to its knowledge, do any grounds for any of the foregoing exist), any instance of the foregoing referred to herein as a "Non-Compliance Notification";

(j) Defaults. Neither it nor any of its Subsidiaries is in default under any contract, agreement, commitment, arrangement, lease, insurance policy, or other instrument to which it is a party, by which its respective assets, business, or operations may be bound or affected, or under which it or its respective assets, business, or operations receives benefits, and there has not occurred any event that, with the lapse of time or the giving of notice or both, would constitute such a default.

(k) No Brokers. No action has been taken by it that would give rise to any valid claim against any party hereto for a brokerage commission, finder's fee or other like payment with respect to the transactions contemplated by this Agreement, excluding, in the case of Petro, fees to be paid to PaineWebber Incorporated and Dain Rauscher Wessels, and, in the case of Star Partners, fees to be paid to A.G. Edwards & Sons, Inc., in each case pursuant to letter agreements which have been heretofore disclosed to the other party.

(l) Compensation and Benefit Plans. (i) Section 5.3(1)(i) of a party's Disclosure Schedule contains a complete list of all material bonus, vacation,

deferred compensation, pension, retirement, profit-sharing, thrift, savings, employee stock ownership, stock bonus, stock purchase, restricted stock and stock option plans, all employment or severance contracts, all medical, dental, disability, health and life insurance plans, all other employee benefit and fringe benefit plans, contracts or arrangements and any applicable "change of control" or similar provisions in any plan, contract or arrangement maintained or contributed to by it or any of its Subsidiaries for the benefit of officers, former officers, employees, former employees, directors, former directors, or the beneficiaries of any of the foregoing, including all "employee benefit plans" as defined in ERISA (collectively, "Compensation and Benefit Plans").

(ii) True and complete copies of its Compensation and Benefit Plans, including, but not limited to, any trust instruments and/or insurance contracts, if any, forming a part thereof, and all amendments thereto and, if applicable, the most recent Form 5500 and annual reports for such plans have been made available to the other party.

(iii) Each of its Compensation and Benefit Plans has been administered in all material respects in accordance with the terms thereof. All "employee benefit plans" within the meaning of Section 3(3) of ERISA, other than "multiemployer plans" within the meaning of Section 3(37) of ERISA ("Multiemployer Plans"), covering employees or former employees of it and its Subsidiaries (its "Plans"), to the extent subject to ERISA, are in material compliance with ERISA, the Code, the Age Discrimination in Employment Act and other applicable laws and no

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prohibited transaction has occurred with respect to any such employee benefit plan that would result in any such excise tax or other liability under ERISA or the Code. Each Compensation and Benefit Plan of it or its Subsidiaries which is an "employee pension benefit plan" within the meaning of Section 3(2) of ERISA ("Pension Plan") and which is intended to be qualified under Section 401(a) of the Code has received a favorable determination letter from the Internal Revenue Service, and it is not aware of any circumstances reasonably likely to result in the revocation or denial of any such favorable determination letter. There is no pending or, to its knowledge, threatened litigation or governmental audit, examination or investigation relating to the Plans.

(iv) Except as Previously Disclosed in Section 5.3(1)(iv) of a Party's Disclosure Schedule, no material liability under Title IV of ERISA has been or is expected to be incurred by it or any of its Subsidiaries with respect to any ongoing, frozen or terminated "single-employer plan", within the meaning of Section 4001(a)(15) of ERISA, currently or formerly maintained by any of them, or the single-employer plan of any entity which is considered one employer with it under Section 4001(a)(15) of ERISA or Section 414 of the Code (an "ERISA Affiliate"). Except as Previously Disclosed in Section 5.3(1)(iv) of a party's Disclosure Schedule, neither it nor any of its Subsidiaries presently contributes to a Multiemployer Plan, nor have they contributed to such a plan within the past five calendar years. No notice of a "reportable event", within the meaning of Section 4043 of ERISA for which the 30-day reporting requirement has not been waived, has been required to be filed for any Pension Plan of it or any of its Subsidiaries or by any ERISA Affiliate within the past 12 months.

(v) All contributions, premiums and payments required to be made under the terms of any Compensation and Benefit Plan of it or any of its Subsidiaries have been made. Neither any Pension Plan of it or any of its Subsidiaries nor any single-employer plan of an ERISA Affiliate of it or any of its Subsidiaries has an "accumulated funding deficiency" (whether or not waived) within the meaning of Section 412 of the Code or Section 302 of ERISA. Neither it nor any of its Subsidiaries has provided or is required to provide, security to any Pension Plan or to any single-employer plan of an ERISA Affiliate pursuant to Section 401(a)(29) of the Code.

(vi) Except as Previously Disclosed in Section 5.3(1)(vi) of a party's Disclosure Schedule, under each Pension Plan of it or any of its Subsidiaries which is a single-employer plan, as of the last day of the most recent plan year ended prior to the date hereof, the actuarially determined present value of all "benefit liabilities", within the meaning of Section 4001(a)(16) of ERISA (as determined on the basis of the actuarial assumptions contained in the Plan's most recent actuarial

valuation) did not exceed the then current value of the assets of such Plan, and there has been no adverse change in the financial condition of such Plan (with respect to either assets or benefits) since the last day of the most recent Plan year.

(vii) Neither it nor any of its Subsidiaries has any obligations under any Compensation and Benefit Plans to provide benefits, including death or medical benefits, with respect to employees of it or its Subsidiaries beyond their retirement or other termination of service other than (i) coverage mandated by Part 6 of Title I of ERISA or Section 4980B of the Code, (ii) retirement or death benefits under any employee pension benefit plan (as defined under Section 3(2) of ERISA), (iii) disability benefits under any employee welfare plan that have been fully provided for by insurance or otherwise, or (iv) benefits in the nature of severance pay.

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(viii) Except as Previously Disclosed under Section 5.1(l)(viii) of a party's Disclosure Schedule, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will (i) result in any payment (including, without limitation, severance, unemployment compensation, golden parachute or otherwise) becoming due to any director or any employee of it or any of its Subsidiaries under any Compensation and Benefit Plan or otherwise from it or any of its Subsidiaries, (ii) increase any benefits otherwise payable under any Compensation and Benefit Plan or (iii) result in any acceleration of the time of payment or vesting of any such benefit.

(m) Labor Matters. Except as set forth in Section 5.3(m) of a party's Disclosure Schedule, neither it nor any of its Subsidiaries is a party to, or is bound by, any collective bargaining agreement, contract or other agreement or understanding with a labor union or labor organization, nor is it or any of its Subsidiaries the subject of a proceeding asserting that it or any such Subsidiaries has committed an unfair labor practice (within the meaning of the National Labor Relations Act) or seeking to compel it or such Subsidiaries to bargain with any labor organization as to wages and conditions of employment.

(n) Environmental Matters. Neither (a) the past or present conduct nor operation of such party or its Subsidiaries nor any condition of any property or asset presently or previously owned, leased or operated by any of them, including but not limited to on-site or off-site disposal or release of any chemical substance, product or waste, violates or violated Environmental Laws, and no condition has existed or event has occurred with respect to any of them or any such property that, with notice or the passage of time, or both, is reasonably likely to result in liability or obligations for any clean-up, remediation, disposal or corrective action under Environmental Laws or claims for personal injury, property damage or damage to natural resources and (b) such party nor any of its Subsidiaries has received any notice from any person or entity that it or its Subsidiaries or the operation or condition of any property or asset ever owned, leased, operated, held as collateral or held as a fiduciary by any of them is or was in violation of or otherwise are alleged to have liability under any Environmental Law or has entered into any consent decree or order or is subject to any order of any court or governmental authority or tribunal under any Environmental Law or relating to the clean-up of any hazardous materials contamination, including, but not limited to, responsibility (or potential responsibility) for the cleanup or other remediation of any pollutants, contaminants, or hazardous or toxic wastes, substances or materials at, on, beneath, or originating from any such property.

(o) Tax Matters. (i) All material returns, declarations, reports, estimates, information returns and statements required to be filed under federal, state, local or any foreign tax laws ("Tax Returns") with respect to it or any of its Subsidiaries, have been timely filed, or requests for extensions have been timely filed and have not expired; (ii) all Tax Returns filed by it are complete and accurate in all material respects; (iii) all Taxes shown to be due on such Tax Returns and all other Taxes, if any, required to be paid by it or its Subsidiaries for all periods ending through the date hereof have been paid or adequate reserves have in accordance with generally accepted accounting principles been established for the payment of such Taxes; and (iv) no material (A) audit or examination or (B) refund litigation with respect to any Tax Return is pending. As of the date hereof, neither it nor any of its Subsidiaries (x) has granted any requests, agreements, consents or waivers to extend the statutory period of limitations applicable to the assessment of any taxes with



respect to any tax returns, (y) is a party to any tax sharing or tax indemnity agreement or (z) is a party to an agreement that provides for the payment of any amount that would constitute a "parachute payment" within the meaning of Section 280G of the Code.

(p) Regulatory Approvals. Except as set forth in Section 5.3(p) of a party's Disclosure Schedule, the only approval of any governmental agency necessary to consummate the transactions contemplated by this Agreement (other than filings under the Securities Act) is pursuant to the HSRA. As of the date hereof, neither Petro nor the Star Partners is aware of any reason why the approvals under the HSRA will not be received.

(q) No Material Adverse Change. Since September 30, 1997, in the case of Star Partners, and since December 31, 1997, in the case of Petro, except as disclosed in its SEC Documents filed with the SEC on or before the date hereof, (i) it and its Subsidiaries have conducted their respective businesses in the ordinary and usual course (excluding the incurrence of expenses related to this Agreement and the transactions contemplated hereby), (ii) it has not made any material change in its accounting methods, principles or practices or its tax methods, practices or elections and (iii) no event has occurred or circumstance arisen that, individually or taken together with all other facts, circumstances and events is reasonably likely to result in a Material Adverse Effect.

(r) Insurance. It has previously delivered to the other party a schedule listing the officers' and directors' liability insurance policies, primary and excess casualty and liability insurance policies providing coverage for bodily injury and property damage maintained by it and its Subsidiaries. It and its Subsidiaries maintain insurance coverage reasonably adequate for the operation of their respective businesses taking into account the cost and availability of such insurance.

(s) Condition and Sufficiency of Assets. The vehicles, equipment and other assets used in the business of it and its Subsidiaries are in operating condition and repair consistent with normal industry standards and are adequate for the uses to which they are being put and none of such vehicles, equipment and assets are in need of replacement, maintenance or repairs except for ordinary and routine maintenance and repairs that are not material in nature or cost, except for vehicles and equipment which are not in service and the use of which are not required to conduct the business of it and its Subsidiaries in the ordinary course consistent with past practices. The vehicles, equipment and assets in service are sufficient for the continued conduct of its business after the Closing.

(t) Intellectual Property. Except as may be disclosed in Section 5.3(t) of its Disclosure Schedule, it and its Subsidiaries own or possess adequate licenses and other valid rights to use all patents, patent rights, trademarks, trademark rights and proprietary information used or held for use in connection with their respective businesses as currently being conducted, and there are no assertions or claims challenging the validity of any of the foregoing which are likely to have, individually or in the aggregate, a Material Adverse Effect. The computer software operated or licensed by it that is material to its business or its internal operations is capable of providing or is being adapted to provide uninterrupted millennium functionality to record, store, process and present calendar dates falling on or after January 1, 2000 in substantially the same manner and with substantially the same functionality as such software records, stores, processes and presents such calendar dates falling on or before December 31, 1999. The costs of the adaptations referred to in the prior sentence will not have a Material Adverse Effect.

ARTICLE VI.  
COVENANTS

Petro hereby covenants to and agrees with Star Partners, and Star Partners hereby covenants to and agrees with Petro, that:

6.1. Best Efforts. (a) Subject to the terms and conditions of this Agreement, it shall use its commercially reasonable best efforts in good faith to take, or cause to be taken, all actions, and to do, or cause to be done, all things

necessary, proper, desirable or advisable under applicable laws, so as to permit consummation of the Merger promptly and otherwise to enable consummation of the transactions contemplated hereby, including, without limitation, obtaining (and cooperating with the other party hereto to obtain) HSRA approval and any other third party approval that is required to be obtained by Petro or Star Partners or any of their respective Subsidiaries in connection with the Merger and the other transactions contemplated by this Agreement, and using reasonable efforts to lift or rescind any injunction or restraining order or other order adversely affecting the ability of the parties to consummate the transactions contemplated hereby, and using reasonable efforts to defend any litigation seeking to enjoin, prevent or delay the consummation of the transactions contemplated hereby or seeking material damages, and each shall cooperate fully with the other parties hereto to that end, and shall furnish to the other party copies of all correspondence, filings and communications between it and its affiliates and any governmental or regulatory authority with respect to the transactions contemplated hereby. In complying with the foregoing, neither it nor its Subsidiaries shall be required to take measures that would have a Material Adverse Effect on it and its Subsidiaries taken as a whole.

6.2. Equityholder Approvals. Each of them shall take, in accordance with applicable law, applicable stock exchange rules and its restated articles or certificate of incorporation and by-laws, in the case of Petro, and Agreement of Limited Partnership, in the case of Star Partners, all action necessary to convene, respectively, an appropriate meeting of the holders of the Common Units of Star Partners to consider and vote upon the approval of the Merger Agreement, the Amended and Restated Partnership Agreement, the Amended and Restated Operating Partnership Agreement, and any other matters required to be approved by them for consummation of the Merger (including any adjournment or postponement, the "Star Partners Meeting"), and an appropriate meeting of stockholders of Petro to consider and vote upon the approval of the Merger and any other matters required to be approved by Petro's stockholders for consummation of the Merger (including any adjournment or postponement, the "Petro Meeting"; and each of the Star Partners Meeting and Petro Meeting, a "Meeting"), respectively, promptly after the date hereof. The Board of Directors of Petro and the Special Committee shall (subject in the case of Petro to compliance with its fiduciary duties as advised by counsel) recommend such approval, and each of Star Partners and Petro shall take all reasonable lawful action to solicit such approval by its respective equityholders.

6.3. Registration Statements. (a) Each of Star Partners and Petro agrees to cooperate in the preparation of (i) a registration statement on Form S-4 (the "Merger Registration Statement") to be filed by Star Partners with the SEC in connection with the issuance of Senior Subordinated Units and Common Units in the Merger and the Junior Subordinated and Senior Subordinated Units to be issued by Star Partners to certain Affiliates of Petro as described under subparagraph 9 of the definition of "Restructuring Transactions" (including the joint proxy statement and prospectus and

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other proxy solicitation materials of Star Partners and Petro constituting a part thereof (the "Joint Proxy Statement") and all related documents), (ii) a registration statement on Form S-3 to be filed by Star Partners with the SEC in connection with the Equity Offering (the "Equity Registration Statement") and (iii) either a registration statement to be filed by Star Partners or a subsidiary of Star Partners with the SEC in connection with the Debt Offering (the "Debt Registration Statement" and together with the Merger Registration Statement and the Equity Registration Statement, the "Registration Statements") or an offering memorandum related to the Debt Offering ("Debt Offering Memorandum"). Provided Petro has cooperated as required above, Star Partners agrees to file the Registration Statements with the SEC as promptly as practicable. Each of Petro and Star Partners agrees to use all reasonable efforts to cause the Registration Statements to be declared effective under the Securities Act as promptly as practicable after filing thereof. Star Partners also agrees to use commercially reasonable efforts to obtain all necessary state securities law or "Blue Sky" permits and approvals required to carry out the transactions contemplated by this Agreement. Petro agrees to furnish to Star Partners all information concerning Petro, its Subsidiaries, officers, directors and stockholders and to take such other action as may be reasonably requested in connection with the foregoing.

(b) Each of Petro and Star Partners agrees, as to itself and its Subsidiaries, that (i) none of the information supplied or to be supplied by it

for inclusion or incorporation by reference in the Registration Statements will, at the time the Registration Statements or Debt Offering Memorandum and each amendment or supplement thereto, if any, becomes effective under the Securities Act or at the date of the Debt Offering Memorandum, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and (ii) the Joint Proxy Statement and any amendment or supplement thereto will, at the date of mailing to stockholders and at the times of the Star Partners Meeting and Petro Meeting, not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Each of Petro and Star Partners further agrees that if it shall become aware prior to the Closing Date of any information that would cause any of the statements in the Registration Statements or Debt Offering Memorandum to be false or misleading with respect to any material fact, or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not false or misleading, it will promptly inform the other party thereof and take the necessary steps to correct the Joint Proxy Statement.

(c) Star Partners will advise Petro, promptly after Star Partners receives notice thereof, of the time when each of the Registration Statements has become effective or any supplement or amendment has been filed, of the issuance of any stop order or the suspension of the qualification of the Common Units or Senior Subordinated Units for offering or sale in any jurisdiction, of the initiation or threat of any proceeding for any such purpose, or of any request by the SEC for the amendment or supplement of a Registration Statement or for additional information.

(d) Each of Star Partners and Petro will use its best efforts to cause the Joint Proxy Statement to be mailed to its unitholders and stockholders, respectively, as soon as practicable after the effective date thereof.

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6.4. Modification of Petro Indentures and Preferred Stock. Immediately upon execution of this Agreement, Petro agrees to use its reasonable best efforts in good faith to accomplish the following prior to the Effective Date:

(a) As to the Private Debt. The Private Debt consists of (i) \$60.0 million of Notes due 2002 at 11.96% interest per annum which shall be restructured to \$63.12 million of Notes due 2002 at 9.0% per annum and (ii) \$4.1 million of Notes due 2001 at 14.1% interest per annum to be restructured to \$2.2 million of Senior Notes due 2001 at 10.25% interest per annum and \$2.2 million of Subordinated Notes due 2001 at 10.25% interest per annum (the "Private Debt Conditions").

(b) As to the Public Debt. At least 90% of (a) Petro's 9 3/8% Subordinated Notes due 2003 and 10 1/8% Subordinated Notes due 2003 will be repurchased at no more than 100% of par plus accrued interest and (b) Petro's 12 1/4% Subordinated Notes due 2005 will be repurchased at no more than 103.5% of par plus accrued interest (the "Public Debt Conditions").

(c) As to the 1989 Preferred Stock. The 1989 Preferred Stock will be repurchased for an aggregate of \$4.167 million plus accrued and unpaid dividends (the "1989 Preferred Stock Conditions").

(d) As to the outstanding Star Propane Debt. The Holders of Star Propane's 8.04% First Mortgage Notes due 2009, Star Propane's 7.17% First Mortgage Notes due 2010 and Star Propane's outstanding Bank credit facilities shall have consented to the execution, delivery and performance of this Agreement by Star Propane or shall have entered into amendments permitting the execution, delivery and performance of this Agreement by Star Propane without violation of the terms of such indebtedness and without a requirement that such indebtedness be repurchased (or an offer be made to purchase such indebtedness) (the "Star Propane Debt Conditions").

6.5. Press Releases. It will not, without the prior approval of the other party hereto, issue any press release or written statement for general circulation relating to the transactions contemplated hereby, except as otherwise required by applicable law or regulation or the rules of the NYSE, in which case it will consult with the other party before issuing any such press release or written statement.

6.6. Access; Information. (a) Upon reasonable notice and subject to applicable laws relating to the exchange of information, it shall, and shall cause its Subsidiaries to, afford the other parties and their officers, employees, counsel, accountants and other authorized representatives, access, during normal business hours throughout the period prior to the Effective Date, to all of its properties, books, contracts, commitments and records, and to its officers, employees, accountants, counsel or other representatives, and, during such period, it shall, and shall cause its Subsidiaries to, furnish promptly to such other parties and representatives (i) a copy of each material report, schedule and other document filed by it pursuant to the requirements of federal or state securities law (other than reports or documents that Star Partners or Petro, or their respective Subsidiaries, as the case may be, are not permitted to disclose under applicable law) and (ii) all other information concerning the business, properties and personnel of it as the other may reasonably request. Neither Star Partners nor Petro nor any of its respective Subsidiaries shall be required to provide access to or to disclose

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information where such access or disclosure would violate or prejudice the rights of its customers, jeopardize the attorney-client privilege of the institution in possession or control of such information or contravene any law, rule, regulation, order, judgment, decree, fiduciary duty or binding agreement entered into prior to the date of this Agreement. The parties hereto will make appropriate substitute disclosure arrangements under the circumstances in which the restrictions of the preceding sentence apply.

(b) It will not use any information obtained pursuant to this Section 6.6 for any purpose unrelated to the consummation of the transactions contemplated by this Agreement and, if this Agreement is terminated, will hold all information and documents obtained pursuant to this paragraph in confidence. No investigation by either party of the business and affairs of the other shall affect or be deemed to modify or waive any representation, warranty, covenant or agreement in this Agreement, or the conditions to either party's obligation to consummate the transactions contemplated by this Agreement.

6.7. Acquisition Proposals. Without the prior written consent of Star Partners, Petro shall not, and shall cause its Subsidiaries and its and its Subsidiaries' officers, directors, agents, advisors and affiliates not to, solicit or encourage inquiries or proposals with respect to, or engage in any negotiations concerning, or provide any confidential information to, or have any discussions with, any such person relating to, any tender offer or exchange offer for, or any proposal for the acquisition of a substantial equity interest in, or a substantial portion of the assets of, or any merger or consolidation with, Petro or any of its Significant Subsidiaries; provided, however, that Petro may, and may authorize and permit its officers, directors, employees or agents to, furnish or cause to be furnished confidential information and may participate in such discussions and negotiations with a person or entity who has made an unsolicited bona fide acquisition proposal for Petro or such assets or Significant Subsidiaries that is superior to the Merger and is reasonably capable of being financed if Petro's Board of Directors, after having consulted with and considered the advice of outside counsel, has determined that the failure to provide such information or participate in such negotiations and discussions could cause the members of such Board of Directors to breach their fiduciary duties under applicable laws. Petro shall promptly (within 24 hours) advise Star Partners of its receipt of any such proposal or inquiry, of the substance thereof, and of the identity of the person making such proposal or inquiry. Nothing in this Section 6.7 shall permit Petro to enter into any agreement with respect to an acquisition proposal during the term of this Agreement other than a confidentiality and standstill agreement in reasonably customary form.

6.8. Affiliate Arrangements. (a) Not later than the 15th day after the mailing of the Joint Proxy Statement, Petro shall deliver to Star Partners a schedule of each person that, to the best of its knowledge, is or is reasonably likely to be, as of the date of the relevant Meeting, deemed to be an "affiliate" of it (an "Affiliate") as that term is used in Rule 145 under the Securities Act.

(b) Petro shall use its reasonable best efforts to cause its Affiliates not to sell any securities received under the Merger or Exchange Agreement in violation of the registration requirements Securities Act, including Rule 145 thereunder.

6.9. Takeover Laws. Neither party shall take any action that would cause the transactions contemplated by this Agreement to be subject to requirements imposed by any Takeover Laws, and

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each of them shall take all necessary steps within its control to exempt (or ensure the continued exemption of) the transactions contemplated by this Agreement from, or if necessary challenge the validity or applicability of, any shareholder rights plan adopted by such party or any applicable Takeover Law, as now or hereafter in effect, including, without limitation, Takeover Laws of any state that purport to apply to this Agreement. the transactions contemplated hereby.

6.10. No Rights Triggered. Each of Petro and Star Partners shall take all steps necessary to ensure that the entering into of this Agreement and the consummation of the transactions contemplated hereby and any other action or combination of actions, or any other transactions contemplated hereby, do not and will not result in the grant of any Rights to any person (i) in the case of Petro under its articles or certificate of incorporation or by-laws and in the case of Star Partners under its Agreement of Limited Partnership or (ii) under any material agreement to which it or any of its Subsidiaries is a party.

6.11. Senior Subordinated Units Listed. In the case of Star Partners, Star Partners shall use its reasonable best efforts to list, prior to the Closing, on the NYSE, upon official notice of issuance, the Senior Subordinated Units to be issued to the holders of Petro Common Stock in the Merger and to certain Petro Affiliates pursuant to the Exchange Agreement.

6.12. Third Party Approvals. (a) Star Partners and Petro and their respective Subsidiaries shall cooperate and use their respective commercially reasonable best efforts to prepare all documentation, to effect all filings, to obtain all permits, consents, approvals and authorizations of all third parties and HSRA approval necessary to consummate the transactions contemplated by this Agreement and to comply with the terms and conditions of such permits, consents, approvals and authorizations and to cause the Merger to be consummated as expeditiously as practicable. Each of Star Partners and Petro shall have the right to review in advance, and to the extent practicable each will consult with the other, in each case subject to applicable laws relating to the exchange of information, with respect to, all material written information submitted to any third party or any Regulatory Authorities in connection with the transactions contemplated by this Agreement. In exercising the foregoing right, each of the parties hereto agrees to act reasonably and promptly. Each party hereto agrees that it will consult with the other parties hereto with respect to the obtaining of all material permits, consents, approvals and authorizations of all third parties and Regulatory Authorities necessary or advisable to consummate the transactions contemplated by this Agreement, and each party will keep the other parties apprised of the status of material matters relating to completion of the transactions contemplated hereby.

(b) Each party agrees, upon request, to furnish the other party with all information concerning itself, its Subsidiaries, directors, officers and stockholders and such other matters as may be reasonably necessary or advisable in connection with the Registration Statement, the Joint Proxy Statement or any filing, notice or application made by or on behalf of such other party or any of its Subsidiaries to any Regulatory Authority in connection with the transactions contemplated hereby.

6.13. Indemnification; Directors' and Officers' Insurance. (a) In the event of any threatened or actual claim, action, suit, proceeding or investigation, whether civil, criminal or administrative, including, without limitation, any such claim, action, suit, proceeding or investigation in which any person who is now, or has been at any time prior to the date of this Agreement, or who becomes

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prior to the Closing, a director, officer or employee of Petro or any of its Subsidiaries, including, without limitation, the directors of Star Gas (the "Indemnified Parties" or, individually, an "Indemnified Party") is, or is threatened to be, made a party based in whole or in part on, or arising in

whole or in part out of, or pertaining to (i) the fact that he is or was a director, officer or employee of Petro, any of Petro's Subsidiaries or any of their respective predecessors or was prior to the Closing serving at the request of any such party as a director, officer, employee, fiduciary or agent of another corporation, partnership, trust or other enterprise or (ii) this Agreement or any of the transactions contemplated hereby and thereby and all actions taken by an Indemnified Party in connection herewith or therewith, whether in any case asserted or arising before or after the Closing, the parties hereto agree to cooperate and use their best efforts to defend against and respond thereto. It is understood and agreed that after the Closing, Star Partners shall indemnify and hold harmless, as and to the fullest extent permitted by law, each such Indemnified Party against any losses, claims, damages, liabilities, costs, expenses (including reasonable attorney's fees and expenses in advance of the final disposition of any claim, suit, proceeding or investigation to each Indemnified Party to the fullest extent permitted by law upon receipt of an undertaking from such Indemnified Party to repay such advanced expenses if it is finally and unappealably determined that such Indemnified Party was not entitled to indemnification hereunder), judgments, fines and amounts paid in settlement in connection with any such threatened or actual claim, action, suit, proceeding or investigation, and in the event of any such threatened or actual claim, action, suit, proceeding or investigation (whether asserted or arising before or after the Closing), the Indemnified Parties may retain counsel reasonably satisfactory to them after consultation with Star Partners; provided, however, that (1) Star Partners shall have the right to assume the defense thereof and upon such assumption Star Partners shall not be liable to any Indemnified Party for any legal expenses of other counsel or any other expenses subsequently incurred by any Indemnified Party in connection with the defense thereof, except that if Star Partners elects not to assume such defense, or counsel for the Indemnified Parties reasonably advises the Indemnified Parties that there are or may be (whether or not any have yet actually arisen) issues which raise conflicts of interest between Star Partners and the Indemnified Parties, the Indemnified Parties may retain counsel reasonably satisfactory to them, and Star Partners shall pay the reasonable fees and expenses of such counsel for the Indemnified Parties, (2) Star Partners shall be obligated pursuant to this paragraph to pay for only one firm of counsel for all Indemnified Parties, (3) Star Partners shall not be liable for any settlement effected without its prior written consent (which consent shall not be unreasonably withheld) and (4) Star Partners shall have no obligation hereunder to any Indemnified Party when and if a court of competent jurisdiction shall ultimately determine, and such determination shall have become final and nonappealable, that indemnification of such Indemnified Party in the manner contemplated hereby is prohibited by applicable law. Any Indemnified Party wishing to claim indemnification under this Section 6.13, upon learning of any such claim, action, suit, proceeding or investigation, shall notify Star Partners thereof provided that the failure to so notify shall not affect the obligations of Star Partners under this Section 6.13 except (and only) to the extent such failure to notify materially prejudices Star Partners. Star Partners's obligations under this Section 6.10 shall continue in full force and effect for a period of six (6) years from the Closing; provided, however, that all rights to indemnification in respect of any claim (a "Claim") asserted or made within such period shall continue until the final disposition of such Claim.

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(b) Without limiting any of the obligations under paragraph (a) of this Section 6.13, Star Partners agrees that all rights to indemnification and all limitations of liability existing in favor of the Indemnified Parties as provided in Petro's Amended and Restated Articles of Incorporation or Bylaws or in the governing documents of any of Petro's Subsidiaries as in effect as of the date of this Agreement with respect to matters occurring on or prior to the Closing shall survive the Merger and shall continue in full force and effect, without any amendment thereto, for a period of six (6) years from the Closing; provided, however, that all rights to indemnification in respect of any Claim asserted or made within such period shall continue until the final disposition of such Claim; provided further, however, that nothing contained in this Section 6.13(b) shall be deemed to preclude the liquidation, consolidation or merger of Petro or any Company Subsidiary, in which case all of such rights to indemnification and limitations on liability shall be deemed to so survive and continue notwithstanding any such liquidation, consolidation or merger and shall constitute rights which may be asserted against Star Partners. Nothing contained in this Section 6.13(b) shall be deemed to preclude any rights to indemnification or limitations on liability provided in Petro's Amended and Restated Articles of Incorporation or Bylaws or the governing documents of any

of Petro's Subsidiaries with respect to matters occurring subsequent to the Closing to the extent that the provisions establishing such rights or limitations are not otherwise amended to the contrary.

(c) Star Partners shall use its reasonable best efforts to cause the persons serving as officers and directors of Petro and Star Gas immediately prior to the Closing to be covered for a period of six (6) years from the Closing by the directors' and officers' liability insurance policy maintained by Petro (provided that Star Partners may substitute therefor policies of at least the same coverage and amounts containing terms and conditions which are not less advantageous to such directors and officers of Petro than the terms and conditions of such existing policy) with respect to acts or omissions occurring prior to the Closing which were committed by such officers and directors in their capacity as such provided that Star Partners shall not be required to pay annual premiums in excess of the last annual premium paid by Petro prior to the date hereof but in such case shall purchase as much coverage as reasonably practicable for such amount.

(d) In the event Star Partners or any of its successors or assigns (i) consolidates with or merges into any other person and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers or conveys all or substantially all of its properties and assets to any person, then, and in each such case, to the extent necessary, proper provision shall be made so that the successors and assigns of Star Partners shall assume the obligations set forth in this Section 6.13.

(e) The provisions of this Section 6.13 are intended to be for the benefit of, and shall be enforceable by, each Indemnified Party and his or her heirs and representatives.

6.14. Benefit Plans. The parties agree to take such actions with respect to compensation and employee benefit plans, programs, arrangements and other perquisites as are set forth on Section 6.14 of Petro's Disclosure Schedule.

6.15. Notification Of Certain Matters. Each of Petro and Star Partners shall give prompt notice to the other of any fact, event or circumstance known to it that (i) is reasonably likely,

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individually or taken together with all other facts, events and circumstances known to it, to result in any Material Adverse Effect with respect to it or (ii) would cause or constitute a material breach of any of its representations, warranties, covenants or agreements contained herein.

6.16. New Director for Star Gas LLC. As soon as reasonably practicable following the Effective Time, Star Gas LLC will appoint a new independent director to serve on the Audit Committee of Star Gas LLC provided that Star Gas LLC shall not appoint any such director to which William P. Nicoletti shall have reasonably objected.

#### ARTICLE VII. CONDITIONS TO CONSUMMATION OF THE MERGER

The obligations of each of the parties to consummate the Merger is conditioned upon the satisfaction at or prior to the Closing of each of the following:

7.1. Shareholder Vote. The Merger, the Partnership Agreement Amendments and the other transactions contemplated hereby shall have been approved and adopted by the affirmative vote of a Unit Majority (as defined in the Partnership Agreement), and the Merger and the other transactions contemplated hereby shall have been approved and adopted by the affirmative vote of the holders of a majority of each class of Petro Common Stock and Petro Preferred Stock and a majority of the Petro Class A Common Stock held by Persons other than Petro and Affiliates of Petro. Holders of at least 100% of the Private Preferred Stock and 90% of the Junior Preferred Stock shall have voted in favor of the Merger.

7.2. Governmental Approvals. Any waiting period (including any extended waiting period arising as a result of a request for additional information by the Federal Trade Commission or the U. S. Department of Justice) under the HSRA shall have expired or been terminated. All other filings required to be made prior to the Effective Time with, and all other consents, approvals, permits and authorizations required to be obtained prior to the Effective Time from,

any Regulatory Authority in connection with the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby by the parties hereto or their affiliates shall have been made or obtained, except where the failure to obtain such consents, approvals, permits and authorizations would not be reasonably likely to result in a Material Adverse Effect on Star Partners or Petro or on the ability of Star Partners or Petro to consummate the transactions contemplated by this Agreement.

7.3. No Injunction. No order, decree or injunction of any court or agency of competent jurisdiction shall be in effect, and no law, statute or regulation shall have been enacted or adopted, that enjoins, prohibits or makes illegal consummation of any of the transactions contemplated hereby, and no action, proceeding or investigation by any Regulatory Authority with respect to the Merger or the other transactions contemplated hereby shall be pending that seeks to restrain, enjoin, prohibit or delay consummation of the Merger or such other transaction or to impose any material restrictions or requirements thereon or on Star Partners or Petro with respect thereto; provided, however, that prior to invoking this condition, each party shall have complied fully with its obligations under Section 6.1.

7.4. Representations, Warranties And Covenants Of Star Partners. In the case of Petro's obligation to consummate the Merger (i) each of the representations and warranties contained herein of Star Partners shall be true and correct as of the date of this Agreement and upon the Closing Date

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with the same effect as though all such representations and warranties had been made on the Closing Date, except for any such representations and warranties made as of a specified date, which shall be true and correct as of such date, in any case subject to the standard set forth in Section 5.2, (ii) each and all of the agreements and covenants of Star Partners to be performed and complied with pursuant to this Agreement on or prior to the Closing Date shall have been duly performed and complied with in all material respects, and (iii) Petro shall have received a certificate signed by the Chief Financial Officer of the General Partner, dated the Closing Date, to the effect set forth in clauses (i) and (ii) of this Section 7.4.

7.5. Representations, Warranties And Covenants Of Petro. In the case of Star Partners's obligation to consummate the Merger (i) each of the representations and warranties contained herein of Petro shall be true and correct as of the date of this Agreement and upon the Closing Date with the same effect as though all such representations and warranties had been made on the Closing Date, except for any such representations and warranties made as of a specified date, which shall be true and correct as of such date, in any case subject to the standard set forth in Section 5.2, (ii) each and all of the agreements and covenants of Petro to be performed and complied with pursuant to this Agreement on or prior to the Closing Date shall have been duly performed and complied with in all material respects, and (iii) Star Partners shall have received a certificate signed by the Chief Financial Officer of Petro, dated the Closing Date, to the effect set forth in clauses (i) and (ii) of this Section 7.5.

7.6. Effective Merger Registration Statement. The Merger Registration Statement shall have become effective under the Securities Act and no stop order suspending the effectiveness of the Merger Registration Statement shall have been issued and no proceedings for that purpose shall have been initiated or threatened by the SEC or any other Regulatory Authority.

7.7. Opinion of Andrews & Kurth LLP. Star Partners and Petro shall have received an opinion from Andrews & Kurth LLP to the effect that:

(a) the Merger and the transactions contemplated by this Agreement will not result in the loss of limited liability of any limited partner of Star Partners or Star Propane,

(b) the Merger and the transactions contemplated by this Agreement will not cause Star Partners or Star Propane to be treated as an association taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes,

(c) the Merger Registration Statement accurately sets forth the material federal income tax consequences to the holders of Common Units of the transactions contemplated hereby.



7.8. Opinion of Petro's Counsel. In the case of Star Partner's obligation to consummate the Merger, Star Partners shall have received an opinion from Phillips Nizer Benjamin Krim & Ballon LLP, counsel to Petro, to the effect that:

(a) Petro is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Minnesota with all requisite corporate power and authority to own its properties and assets and to carry on its business as presently conducted;

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(b) Petro has all requisite corporate power and authority to effect the Merger as contemplated by this Agreement; the Board of Directors and shareholders of Petro have taken all action required by the MBCA and Petro's Articles of Incorporation and Bylaws to authorize the Merger in accordance with the terms of this Agreement; the execution and delivery of this Agreement did not, and the consummation of the Merger will not, violate any provision of Petro's Articles of Incorporation or Bylaws; and upon the filing by the Surviving Corporation of the Articles of Merger with the Secretary of State of the State of Minnesota, the Merger shall become effective under the MBCA.

In rendering such opinions, such counsel may require and rely upon representations and covenants including those contained in certificates of officers of Star Partners, Petro and others and opinions of Minnesota counsel, reasonably satisfactory in form and substance to such counsel.

7.9. NYSE Listing. The Senior Subordinated Units and Common Units issuable pursuant to this Agreement and the Exchange Agreement shall have been approved for listing on the NYSE, subject to official notice of issuance.

7.10. Affiliate Arrangements. Petro shall have taken reasonable action to cause its Affiliates not to sell any securities received under the Merger Agreement in violation of the registration requirements of the Securities Act, including Rule 145 thereunder.

7.11. Fairness Opinion. In the case of Star Partner's obligation to consummate the Merger, the Special Committee shall have received an opinion of A.G. Edwards & Sons, Inc. to the effect that, as of the date of the Joint Proxy Statement, the Merger and the transactions contemplated hereby are fair, from a financial point of view, to the holders of Common Units (other than Petro and its affiliates), and the opinion shall not have been withdrawn by A.G. Edwards & Sons, Inc. In the case of Petro's obligation to consummate the Merger, Petro shall have received an opinion of Dain Rauscher Wessels to the effect that, as of the date of the Joint Proxy Statement, the Merger and the transactions contemplated thereby are fair, from a financial point of view, to the non-affiliated, public holders of Petro Common Stock, and the opinion shall not have been withdrawn by Dain Rauscher Wessels.

7.12. Public Offerings. Star Partners shall have consummated the Equity Offering and the Debt Offering, with the Cost of Capital not to exceed \$27.5 million on an annual basis, and with the net proceeds therefrom applied to reduce indebtedness and preferred stock of Petro outstanding prior to the Effective Time.

7.13. Refinancing Conditions. Immediately prior to the Restructuring Transactions:

(a) The sum of (i) all indebtedness for borrowed money of Petro and its Subsidiaries to be outstanding at the Effective Time except indebtedness outstanding under Petro's working capital bank credit facility and (ii) the repurchase or redemption price (including the value of the Junior Preferred Stock, which shall be deemed to be \$2.24 million) of all indebtedness for borrowed money and Petro Preferred Stock to be repurchased or redeemed as provided in the Refinancing Conditions less the amount, if any, by which the Working Capital of Petro as of the most recent date for which internal Petro financial statements are available (but in any event no more than 15 calendar days after the end of the preceding month) shall exceed the amount of Working Capital of Petro required pursuant to Section 7.13(c), shall not exceed \$331,367,000;

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(b) Petro and its subsidiaries shall have cash balances of not less than \$500,000;

(c) At the Closing Date, the Working capital of Petro as of the most recent date for which internal Petro financial statements are available (which date or the availability of Petro financial statements shall in any event not be more than 15 calendar days after the end of the preceding month) shall exceed the following amounts:

Closing Date -----	Petro Working Capital Requirement -----
February 15, 1999 to the date of availability of February 1999 Petro financial statements.....	\$18,000,000
Date of availability of February 1999 Petro financial statements to date of availability of March 1999 Petro financial statements.....	\$35,000,000
Date of availability of March 1999 Petro financial statements to date of availability of April 1999 Petro financial statements.....	\$46,000,000

(d) Petro shall have cash balances in an amount equal to or not less than (or shall have arranged for payment out of the proceeds of the Debt Offering or the Equity Offering), and shall pay, all out-of-pocket costs and expenses associated with the transactions contemplated by this Agreement, including the underwriting discounts and commissions on the debt and equity issued pursuant to the Debt Registration Statement and Equity Registration Statement or the Debt Offering Memorandum (excluding any over-allotment option), the financial and advisory and fairness opinion fees incurred by Petro and Star Partners, the legal, accounting and printing fees incurred by Petro and Star Partners, all solicitation and exchange fees related to the retirement or redemption of Petro debt or Petro Preferred Stock and all appraisals and environmental reports, required credit agreement and indenture modification; provided, however, that all such expenses in excess of \$19,139,000 shall (without duplication) reduce Petro's Working Capital for purposes of the calculation to be made pursuant to subparagraph (c) above;

(e) The Private Debt Conditions, 12 7/8% Preferred Stock Conditions, Public Debt Conditions, 1989 Preferred Stock Conditions and Star Propane Debt Conditions shall have been satisfied; and

(f) Star Partners shall have received a certificate signed by the Chief Financial Officer of Petro, dated the Closing Date, to the effect set forth in clauses (a) through (e) of this Section 7.11.

7.14. Dissenters' Rights. The shares of Petro Common Stock held by Dissenting Common Holders shall not exceed 10% of the outstanding shares of Petro Common Stock.

7.15. Covenant Not to Compete. Star Partners shall have received an agreement from Irik Sevin substantially in the form of Exhibit H.

7.16. Working Capital Loan. Petro shall have entered into a working capital credit facility of not less than \$30 million reasonably satisfactory to the Special Committee.

7.17. Debt Offering. The Special Committee shall not have reasonably objected to the restrictive covenants governing the notes issued in the Debt Offering.

7.18. Restructuring Transactions. The Restructuring Transactions shall have occurred on the terms provided in this Agreement.

7.19. Special Committee. The Special Committee shall not have withdrawn its approval of this Agreement, the Merger and the transactions contemplated hereby

and thereby as of the date of the Joint Proxy Statement.

7.20. Custody Agreement. All of the Petro Insiders have executed a Custody Agreement substantially in the form attached to the Exchange Agreement on or prior to February 28, 1999.

ARTICLE VIII.  
TERMINATION

8.1. Termination.

(a) This Agreement may be terminated, and the Merger may be abandoned at any time prior to the Effective Time, whether prior to or after approval by the Common Unitholders of Star Partners or the stockholders of Petro:

(i) Mutual Consent. By the mutual consent of Star Partners and Petro in a written instrument, if the Board of Directors of Petro and the Special Committee each so determines by vote of a majority of its members;

(ii) Breach. By Star Partners (upon the vote of the Special Committee) or by Petro (upon the vote of a majority of the members of the Board of Directors) (provided that the terminating party is not then in material breach of any representation, warranty, covenant or other agreement contained herein), in the event of either: (i) a breach by the other party of any representation or warranty contained herein (subject to the standard set forth in Section 5.02), which breach cannot be or has not been cured within 30 days after the giving of written notice to the breaching party of such breach or (ii) a material breach by the other party of any of the covenants or agreements contained herein, which breach cannot be or has not been cured within 30 days after the giving of written notice to the breaching party of such breach;

(iii) No Approval. By Star Partners (upon the vote of the Special Committee) or by Petro (upon the vote of a majority of the members of the Board of Directors), if its Board of Directors (or the Special Committee in the case of Star Partners) so determines by a vote of a majority of the members of its entire Board, in the event (i) the approval under the HSRA required for consummation of the Merger and the other transactions contemplated by the Merger shall have been denied by final nonappealable action or any governmental entity of competent jurisdiction shall have issued a final nonappealable order enjoining or otherwise prohibiting the consummation of the transactions contemplated by this Agreement; provided, however, the party seeking termination shall have complied fully with its obligations under Section 6.01(b) of this Agreement; or (ii) any stockholder or unitholder approval required by Section 7.01 herein is not obtained at the Petro Meeting or the Star Partners Meeting, and such meetings (including adjournments and postponements) have been held; and

(iv) by either the Board of Directors of the General Partner or the Board of Directors of Petro, if the Board of Directors of the other party shall have withdrawn, modified or changed in a manner adverse to the terminating party its approval or recommendation of this Agreement and the transactions contemplated hereby.

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(b) This Agreement shall be terminated if the Merger shall not have been consummated on or prior to April 1, 1999 unless Star Partners (upon the vote of the Special Committee) and Petro (upon the vote of a majority of the members of the Board of Directors) elect to extend such termination date.

8.2. Effect Of Termination And Abandonment. In the event of termination of this Agreement and the abandonment of the Merger pursuant to this Article VIII, no party to this Agreement shall have any liability or further obligation to any other party hereunder except (i) as set forth in Section 9.1 and (ii) that termination will not relieve a breaching party from liability for any willful breach of this Agreement giving rise to such termination.

ARTICLE IX.  
MISCELLANEOUS

9.1. Survival. All representations, warranties, agreements and covenants contained in this Agreement shall not survive the Closing or termination of this Agreement if this Agreement is terminated prior to the Closing; provided,

however, if the Closing occurs, the agreements of the parties in Sections 3.4, 3.7, 6.15, 9.1, 9.4 and 9.8 shall survive the Closing, and if this Agreement is terminated prior to the Closing, the agreements of the parties in Sections 6.6(b), 8.2, 9.1, 9.4, 9.5, 9.6, 9.7 and 9.8 shall survive such termination.

9.2. Waiver; Amendment. Subject to compliance with applicable law, prior to the Closing, any provision of this Agreement may be (i) waived by the party benefitted by the provision or (ii) amended or modified at any time, by an agreement in writing between the parties hereto approved by their respective Boards of Directors (and in the case of Star Partners, by the Special Committee) and executed in the same manner as this Agreement. Prior to submission of this Agreement for approval by the stockholders of Petro, Star Partners may make such amendments as are permitted by Section 2.1, and Petro's Board of Directors shall approve the supplements and amendments specified in this sentence.

9.3. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to constitute an original.

9.4. Governing Law. This Agreement shall be governed by, and interpreted in accordance with, the laws of the State of New York, without regard to the conflict of law principles thereof (except to the extent that mandatory provisions of federal law govern).

9.5. Expenses. Whether or not the Merger is consummated, all reasonable costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby will be paid by Petro.

9.6. Confidentiality. Each of the parties hereto and their respective agents, attorneys and accountants will maintain the confidentiality of all information provided in connection herewith in accordance, and subject to the limitations of, the Confidentiality Agreement.

9.7. Notices. All notices, requests and other communications hereunder to a party shall be in writing and shall be deemed given if personally delivered, telecopied (with confirmation) or mailed

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by registered or certified mail (return receipt requested) to such party at its address set forth below or such other address as such party may specify by notice to the parties hereto.

If to Star Partners, to:

Star Gas Corporation  
Clearwater House  
2187 Atlantic Street  
P.O. Box 120011  
Stamford, CT 06912-0011  
Fax: 203-328-739

With copies to:

Elizabeth K. Lanier  
GE Power Systems  
One River Road  
Building 37, 6th Floor  
Schenectady, NY 12345  
Fax: 518-385-4725

William P. Nicoletti  
Managing Director  
McDonald Investments Inc.  
575 Fifth Avenue  
18th Floor  
New York, NY 10017  
Fax: 917-368-2272

Baker & Botts LLP  
3000 One Shell Plaza 910 Louisiana  
Houston, Tx 77002-4995  
Attn: R. Joel Swanson, Esq.  
Fax: 713-229-1522

If to Petro, to:

Petroleum Heat and Power Co., Inc.  
2187 Atlantic Street--5th Fl.  
P.O. Box 1457  
Stamford, CT 06902  
Fax: 203-328-7421

With copies to:

Phillips Nizer Benjamin Krim & Ballon LLP  
666 Fifth Avenue  
New York, New York 10103-0084  
Attn: Alan Shapiro, Esq.  
Fax: 212-262-5152

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9.8. Entire Understanding; No Third Party Beneficiaries. Except for the Confidentiality Agreement, which shall remain in effect, this Agreement represents the entire understanding of the parties hereto with reference to the transactions contemplated hereby and supersedes any and all other oral or written agreements heretofore made, including without limitation the Original Merger Agreement. Except for Sections 6.12 and 6.14, nothing in this Agreement, expressed or implied, is intended to confer upon any person, other than the parties hereto or their respective successors, any rights, remedies, obligations or liabilities under or by reason of this Agreement.

9.9. Headings. The headings contained in this Agreement are for reference purposes only and are not part of this Agreement.

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IN WITNESS WHEREOF, the parties hereto have caused this instrument to be executed in counterparts by their duly authorized officers, all as of the day and year first above written.

PETROLEUM HEAT AND POWER CO., INC.

By: \_\_\_\_\_  
Name: William G. Powers, Jr.  
Title: President

STAR GAS PARTNERS, L.P.  
By: Star Gas Corporation

By: \_\_\_\_\_  
Name: Joseph P. Cavanaugh  
Title: President

STAR GAS PROPANE, LP  
By: Star Gas Corporation

By: \_\_\_\_\_  
Name: Joseph P. Cavanaugh  
Title: President

PETRO/MERGEKO, INC.

By: \_\_\_\_\_  
Name: William G. Powers, Jr.  
Title: President

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Annex B

EXCHANGE AGREEMENT

Agreement entered into as of this 17th day of October, 1998 ("Agreement") by and among Star Gas Partners, L.P., a Delaware limited partnership ("Star Partners"), and the shareholders of Petroleum Heat and Power Co., Inc., a

Minnesota corporation, ("Petro") who have executed this Agreement in such capacity (individually a "Shareholder" and collectively the "Shareholders").

1. Recitals. This Agreement is entered into with reference to the following facts:

1.1 Petro, Star Partners and certain direct and indirect subsidiaries of Star Partners have this date entered into an Agreement and Plan of Merger (the "Merger Agreement").

1.2 It is a condition to the Merger that immediately prior to the Effective Time each of the Shareholders shall exchange (the "Exchange") certain shares of Petro Class A Common Stock, par value \$.10 per share, and Petro Class C Common Stock, par value \$.10 per share (collectively the "Petro Common Stock") with Star Partners for certain units of Senior Subordinated Limited Partnership Units ("Senior Subordinated Units") and Junior Subordinated Partnership Units (the "Junior Subordinated Units" and together with the Senior Subordinated Units, the "Subordinated Units"), all as set forth on Exhibit 1.2 hereto, except that record and beneficial ownership of certain shares of Class A Common Stock and Class C Common Stock owned by Audrey Sevin, Irik Sevin, Wolfgang Traber, Hanseatic Corporation and Hanseatic Americas LDS (collectively the "GP Group") as contemplated under clause 6 of the definition of "Restructuring Transactions" in the Merger Agreement will be transferred by the GP Group to Star Gas LLC and by Star Gas LLC to Star Partners as part of the Exchange.

1.3 As a condition to executing the Merger Agreement, Star Partners has required that the Shareholders execute (i) this Agreement, pursuant to which each of them agrees to exchange his Petro Common Stock with Star Partners and Star Partners agrees to issue the Subordinated Units in exchange for the Petro Common Stock, on the terms and conditions contained herein and (ii) on or before December 31, 1998, a custody agreement of even date between them and American Stock Transfer & Trust Company substantially in the form of Exhibit 1.4 hereto (the "Custody Agreement").

1.4 All terms with initial capitals which are not defined herein shall have the meaning assigned to them in the Merger Agreement.

2. Exchange of Petro Shares for Subordinated Units.

2.1 Subject to the terms and conditions of this Agreement, and conditioned on the occurrence of the closing under the Merger Agreement, at the closing under the Merger Agreement (the "Closing"), each of the Shareholders agrees to transfer and convey to Star Partners the Petro Common Stock indicated as owned by such Shareholder on Exhibit 1.2 and Star Partners agrees to accept such transfers and conveyances and to issue to each such Petro Shareholder the Subordinated Units issuable to such Petro Shareholder at the Closing as set forth on Exhibit 1.2, except that the GP Group agrees that on or before November 1, 1998 they will transfer to Star Gas LLC those shares of Petro Common Stock specified on Exhibit 1.2 as

transferable to Star Gas LLC and will cause Star Gas LLC to execute a Custody Agreement and to transfer and convey such Petro Common Stock to Star Partners at the Closing.

2.2 As security for the performance of its obligations pursuant to Section 2.1 each of the Petro Shareholders has entered into the Custody Agreement.

3. Representations and Warranties of each of the Shareholders.

Each of the Shareholders represents and warrants to Star Partners:

3.1 Each Shareholder is the lawful owner of the number of Petro Shares listed opposite the name of such Shareholder on Exhibit 1.2 free and clear of all liens, restrictions, encumbrances and claims of any kind to Star Partners.

3.2 Upon consummation of the Exchange, Star Partners will acquire good title to all of the Petro Common Stock owned by such Shareholder, free and clear of any liens, restrictions, encumbrances and claims of any kind whatsoever.

#### 4. Representations and Warranties of Star Partners.

4.1 Star Partners hereby represents and warrants to the Petro Shareholders as follows:

(a) The Subordinated Units to be delivered to the Petro Shareholders at the Closing, and the additional Senior Subordinated Units which may be issued to holders of the Senior Subordinated Units upon Petro's achieving certain specified performance levels during the period of five years following the Closing ("Contingent Senior Subordinated Units"), (i) have been duly authorized and will be, when issued to the Petro Shareholders in accordance with the terms hereof, or in the case of the Contingent Senior Subordinated Units, when issued in accordance with the terms of the Amended and Restated Agreement of Limited Partnership of Star Partners (the "Partnership Agreement"), validly issued in accordance with the Partnership Agreement, fully paid (to the extent required under the Partnership Agreement) and nonassessable (except as such nonassessability may be affected by matters described in the Registration Statement relating to the Merger Agreement under the caption "Description of the Partnership Agreement--Limited Liability"), and (ii) in the case of the Senior Subordinated Units, on the Closing Date shall be approved for trading on the NYSE subject to official notice of issuance.

(b) Neither the execution and delivery of this Agreement nor (upon the adoption of the amendments to the Partnership Agreement provided for in the Merger Agreement) the consummation of the transactions contemplated hereby will violate any provisions of the Partnership Agreement or other organizational documents of Star Partners or be in conflict with, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, or result in the termination of, or accelerate the performance required by, or cause the acceleration of the maturity of any debt or obligation pursuant to, or result in the creation or imposition of any security interest, lien or other encumbrance upon any property or assets of Star Partners, under any agreement or commitment to which Star Partners is a party or by which Star Partners is bound, or violate any applicable statute or law or any judgment, decree, order, regulation or rule of any court or governmental authority.

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(c) When delivered to the Shareholders pursuant to the Exchange, the Senior Subordinated Units will be registered under the Securities Act of 1933, as amended (the "Securities Act") and will be transferable by the Petro Shareholders free of any restrictions imposed by the Securities Act.

#### 5. Representations and Acknowledgments of Shareholders Regarding the Junior Subordinated Units

Each of the Shareholders hereby represents and acknowledges:

##### 5.1 No Distribution.

The Junior Subordinated Units being acquired by such Shareholder as set forth on Exhibit 1.2 are being acquired for his/its own account, for investment and not with a view to or for resale in connection with any "distribution" thereof as such term is used in connection with the registration provisions of the Securities Act.

##### 5.2 Legend.

The following legend shall be affixed to the certificates for Junior Subordinated Units issued pursuant to this Agreement:

The securities represented by this Certificate have not been registered under the Securities Act of 1933, as amended, nor the laws of any state. Accordingly, these securities may not be offered, sold, transferred, pledged or hypothecated in the absence of registration, or the availability, in the opinion of counsel for the issuer, of an exemption from registration under the Securities Act of 1933, as amended, or the laws of any state. Therefore, the stock transfer agent will effect transfer of this Certificate only in accordance with the above instructions.

##### 5.3 Review of Applicable Laws. Each Shareholder acknowledges that Star

Partners has informed him/it that the Junior Subordinated Units to be received pursuant to the Exchange have not been registered under the Securities Act and may not be sold until they have been registered or unless an exemption from such registration is available.

5.4 Knowledge and Experience. Each Shareholder has the knowledge and experience in the financial and business matters necessary for making an informed decision on the merits and risk of his investment in the Junior Subordinated Units.

6. Registration of Senior Subordinated Units. The Senior Subordinated Units will be entitled to the registration rights provided in the Partnership Agreement for the benefit of affiliates of the General Partner.

7. Termination. This Agreement may terminate under any of the following circumstances:

7.1 If the Closing has not occurred on or before May 1, 1999, then any party may terminate this Agreement by giving notice as provided in 7.9;

7.2 If Petro and Star Partners publicly announce that they have abandoned the Merger, then this Agreement shall automatically terminate;

7.3 If the Merger Agreement is terminated, then this Agreement shall automatically terminate;

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7.4 At any time, by the written consent of all parties.

7. Miscellaneous.

7.1 Complete Agreement. This Agreement constitutes the entire agreement of the parties hereto pertaining to the subject matter hereof and supersedes all prior or contemporaneous conversations, understandings, negotiations and discussions, whether oral or written, on the subject matter. It can be amended only in writing signed by all parties. The representations and warranties set forth herein shall survive the Closing.

7.2 Governing Law. This Agreement is intended to be performed in the State of New York and shall be construed and enforced in accordance with the laws of the State of New York.

7.3 The parties hereto agree that they will, at the expense of the requesting party, from time to time execute and deliver any and all additional and supplemental instruments, and do such other reasonable acts and things which may be necessary or desirable to effect the purpose of this Agreement and the transactions contemplated hereby.

7.4 Waiver by any of the parties hereto of any breach of, or exercise of any right under this Agreement, shall not be deemed a waiver of similar or other breaches or rights.

7.5 Captions and section headings used herein are for convenience only, and are not a part of this Agreement, and shall not be used in construing it.

7.6 All of the terms and provisions of this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective transferees, successors and assigns. Neither party may assign this Agreement or any interest therein.

7.7 Each Shareholder will indemnify and hold Star Partners harmless against and in respect of any claims from brokerage or other commissions relating to this Agreement or the transactions contemplated hereby resulting from such Shareholder's own dealing with any person in connection with the Exchange and Star Partners will indemnify and hold the Shareholders harmless against and in respect of any claims from brokerage or other commissions relating to this Agreement or the transactions contemplated hereby resulting from its own dealing with any person in connection with the Exchange.

7.8 This Agreement is intended to benefit only the parties hereto and there shall be no third party beneficiaries of this Agreement.



7.9 Notices. All notices, requests and other communications hereunder to a party shall be in writing and shall be deemed given if personally delivered, telecopied (with confirmation) or mailed by registered or certified mail (return receipt requested) to such party at its address set forth below or such other address as such party may specify by notice to the parties hereto.

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If to Star Partners, to:

Star Gas Corporation  
Clearwater House  
2187 Atlantic Street  
P.O. Box 120011  
Stamford, CT 06912-0011  
Fax: 203-328-7393  
Attn: Joseph P. Cavanaugh, President

With copies to:

Baker & Botts  
One Shell Plaza  
910 Louisiana  
Houston, TX 77002-4995  
Fax: 713-229-1522  
Attn: R. Joel Swanson, Esq.

If to a Shareholder:

To his Address set forth on the  
Signature Page

With copies to:

Phillips Nizer Benjamin Krim & Ballon LLP  
666 Fifth Avenue  
New York, New York 10103-0084  
Attn: Alan Shapiro, Esq.  
Fax: 212-262-5152

Star Gas Partners, L.P.  
by Star Gas Corporation, its General  
Partner

By \_\_\_\_\_  
Joseph P. Cavanaugh, President

Shareholders:

-----	-----
Irik P. Sevin	Wolfgang Traber
-----	-----
Address	Address
-----	-----

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-----	-----
Audrey L. Sevin	Paul Biddelman
-----	-----
Address	Address
-----	-----
-----	-----
Phillip Ean Cohen	Hubertus Langen

-----  
Address

Brentwood Corporation

By: \_\_\_\_\_

-----  
Address

Barcell Corporation

By: \_\_\_\_\_

-----  
Address

-----  
Address

United Capital Corp.

By: \_\_\_\_\_

-----  
Address

-----  
Thomas J. Edelman

-----  
Address

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GABES SA

By: \_\_\_\_\_

-----  
Address

Minneford Corp.

By: \_\_\_\_\_

-----  
Address

-----  
Fernando Montero

-----  
Address

Hanseatic Americas LDC

By: \_\_\_\_\_

-----  
Richard O'Connell

-----  
Address

TORTOSA GmbH

By: \_\_\_\_\_

-----  
Address

MM Warburg & Co.

By: \_\_\_\_\_

-----  
Address

Hanseatic Corporation

By: \_\_\_\_\_

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Exhibit 1.2

Shareholder  
-----

Class A    Class C    Total  
-----

P. Cohen.....	679,262	113,423	792,685
T. Edelman.....	653,312	129,019	782,331
R. O'Connell.....	1,128,745	302,461	1,431,206
A. Sevin.....	1,876,863	477,716	2,354,579
I. Sevin.....	630,227	201,641	831,868
W. Traber.....	--	9,038	9,038
Brentwood Corp.....	681,873	120,985	802,858
Gabes S.A.....	597,617	124,314	721,931
Minneford Corp.....	73,638	12,000	85,638
Fernando Montero.....	--	35,287	35,287
M.M. Warburg & Co.....	--	31,808	31,808
Hanseatic Corp.....	--	298,717	298,717
Hanseatic Americas LDC.....	1,777,279	--	1,777,279
Barcel Corp.....	605,151	151,231	756,382
Hubertus Langen.....	731,473	9,038	740,511
Tortosa GmbH.....	--	298,717	298,717
P. Biddelman.....	2,386	--	2,386
United Capital Corp.....	90,000	--	90,000
	-----	-----	-----
	9,527,826	2,315,395	11,843,221
	=====	=====	=====

All shareholders to receive senior subordinated units of Star Partners at the ratio of .11758 per share, except A. Sevin, I. Sevin, W. Traber, Hanseatic Corp. and Hanseatic Americas LDC, which will receive junior subordinated units and general partner units at the ratio of .14318 per share.

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Annex C

AMENDED AND RESTATED  
AGREEMENT OF LIMITED PARTNERSHIP  
OF  
STAR GAS PARTNERS, L.P.

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[ ] [ / ] Symbols denote language that has been stricken from this document.  
- - - - - Symbol denotes language that has been underlined on the Page.

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AMENDED AND RESTATED

-----  
 AGREEMENT OF LIMITED PARTNERSHIP OF  
 STAR GAS PARTNERS, L.P.

THIS AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP OF STAR GAS

-----  
 PARTNERS, L.P., dated as of \_\_\_\_\_, [1995/] 1999, is entered into by and

-----  
 among [Star Gas/] Corporation; STAR GAS LLC, a Delaware [corporation/] limited liability company, as the General Partner, and [William G. Powers, Jr.,] as the Organizational Limited Partner, together with any other Persons who [those Persons who are or become Partners in the Partnership or parties hereto as

-----  
 provided herein. In consideration of the covenants, conditions and agreements contained herein, the parties hereto hereby agree as follows:

RECITALS:  
 -----

WHEREAS, Star Gas Corporation, a Delaware corporation and the initial general

-----  
partner of the Partnership (the "Initial General Partner"), and certain other  
-----  
parties organized the Partnership as a Delaware limited partnership pursuant to  
-----  
an Agreement of Limited Partnership dated as of December 20, 1995 (the  
-----  
"Original Agreement"); and  
-----

-----  
WHEREAS, the Partnership, the Operating Partnership, Petro and Mergeco have  
-----  
entered into that Merger Agreement dated as of October 22, 1998 (the "Petro  
-----  
Merger Agreement") providing for the merger (the "Merger") of Mergeco with and  
-----  
into Petro; and  
-----

-----  
WHEREAS, in order to effect the transactions contemplated by the Petro Merger  
-----  
Agreement, it is necessary to amend this Agreement as provided herein; and  
-----

-----  
WHEREAS, the Petro Merger Agreement and the transactions contemplated thereby  
-----  
(including, without limitation, the form of this Agreement and the amendments  
-----  
effected hereby and the withdrawal of the Initial General Partner as the  
-----  
general partner of the Partnership and the Operating Partnership and the  
-----  
election of Star Gas LLC as the successor general partner of the Partnership  
-----  
and the Operating Partnership) have been submitted to, and approved by the  
-----  
requisite vote of, the Limited Partners; and  
-----

-----  
WHEREAS, the General Partner has the authority to adopt certain amendments to  
-----  
this Agreement without the approval of any Limited Partner or Assignee to  
-----  
reflect, among other things: (i) subject to the terms of Section 4.4, any  
-----  
change that is necessary or desirable in connection with the authorization for  
-----  
issuance of any class or series of Partnership Securities pursuant to Section  
-----  
4.4 and (ii) a change that, in the sole discretion of the General Partner, does  
-----  
not adversely affect the Limited Partners in any material respect.  
-----

-----  
NOW, THEREFORE, the Original Agreement is hereby amended and, as so amended,  
-----  
is restated in its entirety as follows:  
-----

#### ARTICLE I

##### ORGANIZATIONAL MATTERS

Section 1.1 Formation and Continuation.

-----  
The Initial General Partner and the Organizational Limited Partner []hereby  
-----  
form[[]] previously formed the Partnership as a limited partnership pursuant to  
-----  
the provisions of the Delaware Act. The General Partner and the Limited Partners  
-----  
hereby amend and restate this Agreement in its entirety to continue the  
-----  
Partnership as a limited partnership pursuant to the provisions of the Delaware



-----  
Act and to set forth the rights and obligations of the Partners and certain  
-----  
matters related thereto. This amendment and restatement shall become effective  
-----  
on the date of this Agreement. Except as expressly provided to the contrary in  
-----

this agreement, the rights and obligations of the Partners and the  
administration, dissolution and termination of the Partnership shall be  
governed by the Delaware Act. All Partnership Interests shall constitute  
personal property of the owner thereof for all purposes.

Section 1.2 Name.

The name of the Partnership [ ]shall be[ / ] is "Star Gas Partners, L.P." The  
-----  
Partnership's business may be conducted under any other name or names deemed  
necessary or appropriate by the General Partner, including the name of the  
General Partner. The words "Limited Partnership," "L.P.," "Ltd." or similar  
words or letters shall be included in the Partnership's name where necessary  
for the purpose of complying with the laws of any jurisdiction that so  
requires. The General Partner in its sole discretion may change the name of the  
Partnership at any time and from time to time and shall notify the Limited  
Partners of such change in the next regular communication to the Limited  
Partners.

Section 1.3 Registered Office; Principal Office.

Unless and until changed by the General Partner, the registered office of the  
Partnership in the State of Delaware shall be located at 32 Loockerman Square,  
Suite L-100, Dover, Delaware 19904, and the registered agent for service of  
process on the Partnership in the State of Delaware at such registered office  
shall be The Prentice-Hall Corporation System, Inc. The principal office of the  
Partnership shall be located at, and the address of the General Partner shall  
be, 2187 Atlantic Street, Stamford, [ ]CT[ / ] Connecticut 06902, or such other  
-----

place as the General Partner may from time to time designate by notice to the  
Limited Partners. The Partnership may maintain offices at such other place or  
places within or outside the State of Delaware as the General Partner deems  
necessary or appropriate.

Section 1.4 Power of Attorney.

(a) Each Limited Partner and each Assignee hereby constitutes and appoints  
each of the General Partner and, if a Liquidator shall have been selected  
pursuant to Section 14.3, the Liquidator, severally (and any successor to  
either thereof by merger, transfer, assignment, election or otherwise) and each  
of their authorized officers and attorneys-in-fact, with full power of  
substitution, as his true and lawful agent and attorney-in-fact, with full  
power and authority in his name, place and stead, to:

(i) execute, swear to, acknowledge, deliver, file and record in the  
appropriate public offices (A) all certificates, documents and other  
instruments (including this Agreement and the

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Certificate of Limited Partnership and all amendments or restatements  
thereof) that the General Partner or the Liquidator deems necessary or  
appropriate to form, qualify or continue the existence or qualification of  
the Partnership as a limited partnership (or a partnership in which the  
limited partners have limited liability) in the State of Delaware and in  
all other jurisdictions in which the Partnership may conduct business or  
own property; (B) all certificates, documents and other instruments that  
the General Partner or the Liquidator deems necessary or appropriate to  
reflect, in accordance with its terms, any amendment, change, modification  
or restatement of this Agreement; (C) all certificates, documents and other  
instruments (including conveyances and a certificate of cancellation) that  
the General Partner or the Liquidator deems necessary or appropriate to  
reflect the dissolution and liquidation of the Partnership pursuant to the  
terms of this Agreement; (D) all certificates, documents and other  
instruments relating to the admission, withdrawal, removal or substitution  
of any Partner pursuant to, or other events described in, Articles XI, XII,  
XIII and XIV; (E) all certificates, documents and other instruments

relating to the determination of the rights, preferences and privileges of any class or series of Partnership Securities issued pursuant to Section 4.4; and (F) all certificates, documents and other instruments (including agreements and a certificate of merger) relating to a merger or consolidation of the Partnership pursuant to Article XVI; and

(ii) execute, swear to, acknowledge, deliver, file and record all ballots, consents, approvals, waivers, certificates, documents and other instruments necessary or appropriate, in the sole discretion of the General Partner or the Liquidator, to make, evidence, give, confirm or ratify any vote, consent, approval, agreement or other action that is made or given by the Partners hereunder or is consistent with the terms of this Agreement or is necessary or appropriate, in the sole discretion of the General Partner or the Liquidator, to effectuate the terms or intent of this Agreement; provided, that when required by Section 15.3 or any other provision of this Agreement that establishes a percentage of the Limited Partners or of the Limited Partners of any class or series required to take any action, the General Partner or the Liquidator may exercise the power of attorney made in this Section 1.4(a)(ii) only after the necessary vote, consent or approval of the Limited Partners or of the Limited Partners of such class or series, as applicable.

Nothing contained in this Section 1.4(a) shall be construed as authorizing the General Partner to amend this Agreement except in accordance with Article XV or as may be otherwise expressly provided for in this Agreement.

(b) The foregoing power of attorney is hereby declared to be irrevocable and a power coupled with an interest, and it shall survive and not be affected by the subsequent death, incompetency, disability, incapacity, dissolution, bankruptcy or termination of any Limited Partner or Assignee and the transfer of all or any portion of such Limited Partner's or Assignee's Partnership Interest and shall extend to such Limited Partner's or Assignee's heirs, successors, assigns and personal representatives. Each such Limited Partner or Assignee hereby agrees to be bound by any representation made by the General Partner or the Liquidator acting in good faith pursuant to such power of attorney; and each such Limited Partner or Assignee hereby waives any and all defenses that may be available to contest, negate or disaffirm the action of the General Partner or the Liquidator taken in good faith under such power of attorney. Each Limited Partner or Assignee shall execute and deliver to the General Partner or the Liquidator, within 15 days after receipt of the

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General Partner's or the Liquidator's request therefor, such further designation, powers of attorney and other instruments as the General Partner or the Liquidator deems necessary to effectuate this Agreement and the purposes of the Partnership.

#### Section 1.5 Term.

The Partnership commenced upon the filing of the Certificate of Limited Partnership in accordance with the Delaware Act and shall continue in existence until the close of Partnership business on December 31, 2085, or until the earlier dissolution of the Partnership in accordance with the provisions of Article XIV.

#### Section 1.6 Possible Restrictions on Transfer.

The General Partner may impose restrictions on the transfer of Partnership Interests if a subsequent Opinion of Counsel determines that such restrictions are necessary to avoid a significant risk of the Partnership's or the Operating Partnership's becoming taxable as a corporation or otherwise as an entity for federal income tax purposes. The restrictions may be imposed by making such amendments to this Agreement as the General Partner in its sole discretion may determine to be necessary or appropriate to impose such restrictions; provided, however, that any amendment that the General Partner believes, in the exercise of its reasonable discretion, could result in the delisting or suspension of trading of any class of Units on any National Securities Exchange on which such class of Units is then traded must be approved by the holders of at least a majority of the Outstanding Units of such class.

ARTICLE II

DEFINITIONS

The following definitions shall be for all purposes, unless otherwise clearly indicated to the contrary, applied to the terms used in this Agreement.

"Acquisition" means any transaction in which any Group Member acquires (through an asset acquisition, merger, stock acquisition or other form of investment) control over all or a portion of the assets, properties or business of another Person for the purpose of increasing the operating capacity of the Partnership Group from the operating capacity of the Partnership Group existing immediately prior to such transaction.

"Additional Book Basis" means the portion of any remaining Carrying Value of an Adjusted Property that is attributable to positive adjustments made to such Carrying Value as a result of Book-Up Events. For purposes of determining the extent to which Carrying Value constitutes Additional Book Basis:

(i) Any negative adjustment made to the Carrying Value of an Adjusted Property as a result of either a Book-Down Event or a Book-Up Event shall first be deemed to offset or decrease that portion of the Carrying Value of such Adjusted Property that is attributable to any prior positive adjustments made thereto pursuant to a Book-Up Event or Book-Down Event.

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(ii) If Carrying Value that constitutes Additional Book Basis is reduced as a result of a Book-Down Event and the Carrying Value of other property is increased as a result of such Book-Down Event, an allocable portion of any such increase in Carrying Value shall be treated as Additional Book Basis; provided that the amount treated as Additional Book Basis pursuant hereto as a result of such Book-Down Event shall not exceed the amount by which the Aggregate Remaining Net Positive Adjustments after such Book-Down Event exceeds the remaining Additional Book Basis attributable to all of the Partnership's Adjusted Property after such Book-Down Event (determined without regard to the application of this clause (ii) to such Book-Down Event).

"Additional Book Basis Derivative Items" means any Book Basis Derivative Items that are computed with reference to Additional Book Basis. To the extent that the Additional Book Basis attributable to all of the Partnership's Adjusted Property as of the beginning of any taxable period exceeds the Aggregate Remaining Net Positive Adjustments as of the beginning of such period (the "Excess Additional Book Basis"), the Additional Book Basis Derivative Items for such period shall be reduced by the amount that bears the same ratio to the amount of Additional Book Basis Derivative Items determined without regard to this sentence as the Excess Additional Book Basis bears to the Additional Book Basis as of the beginning of such period.

[]"Additional Capital Contribution Obligation" has the meaning assigned to such term in Section 4.2(b).[/]

"Additional Limited Partner" means a Person admitted to the Partnership as a Limited Partner pursuant to Section 12.4 and who is shown as such on the books and records of the Partnership.

"Adjusted Capital Account" means the Capital Account maintained for each Partner as of the end of each fiscal year of the Partnership, (a) increased by any amounts that such Partner is obligated to restore under the standards set by Treasury Regulation Section 1.704-1(b)(2)(ii)(c) (or is deemed obligated to restore under Treasury Regulation Sections 1.704-2(g) and 1.704-2(i)(5)) and (b) decreased by (i) the amount of all losses and deductions that, as of the end of such fiscal year, are reasonably expected to be allocated to such Partner in subsequent years under Sections 704(e)(2) and 706(d) of the Code and Treasury Regulation Section 1.751-1(b)(2)(ii), and (ii) the amount of all distributions that, as of the end of such fiscal year, are reasonably expected to be made to such Partner in subsequent years in accordance with the terms of this Agreement or otherwise to the extent they exceed offsetting increases to such Partner's Capital Account that are reasonably expected to occur during (or prior to) the year in which such distributions are reasonably expected to be made (other than increases as a result of a minimum gain chargeback pursuant to Section 5.1(d)(i) or 5.1(d)(ii)). The foregoing definition of Adjusted Capital Account is intended to comply with the provisions of Treasury Regulation Section 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith. The "Adjusted Capital Account" in respect of a Common Unit, a Senior

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Subordinated Unit, a Junior Subordinated Unit, a General Partner Unit or any

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other specified interest in the Partnership shall be the amount that such  
Adjusted Capital Account would be if such Common Unit, a Senior Subordinated

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Unit, a Junior Subordinated Unit, a General Partner Unit or other interest in

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the Partnership were the only interest in the Partnership held by a Partner.

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"Adjusted Operating Surplus" for any period means Operating Surplus generated  
during such period as adjusted to (a) decrease Operating Surplus by (i) any net  
increase in Working Capital Borrowings during such period and (ii) any net

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reduction in cash reserves for Operating Expenditures during such period and  
[] (iii) any capital contribution pursuant to the Additional Capital  
Contribution Obligation [ / ] not relating to an Operating Expenditure made during

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such period, and (b) increase Operating Surplus by (i) any net decrease in

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Working Capital Borrowings during such period and (ii) any net increase in cash  
reserves for Operating Expenditures during such period required by any debt  
instrument for the repayment of principal, interest or premium. [] Solely with  
respect to the test of the Reduction Threshold, Operating Surplus will be  
increased by any net increases in cash reserves for Operating Expenditures  
(other than any increase already taken into account in (b)(ii) above) during  
such period. [ / ] Adjusted Operating Surplus does not include that portion of  
Operating Surplus included in clause (a)(i) of the definition of Operating  
Surplus.

"Adjusted Property" means any property the Carrying Value of which has been  
adjusted pursuant to Section 4.9(d)(i) or 4.9(d)(ii). [] Once an Adjusted  
Property is deemed distributed by, and recontributed to, the Partnership for  
federal income tax purposes upon a termination thereof pursuant to Section 708  
of the Code, such property shall thereafter constitute a Contributed Property  
until the Carrying Value of such property is subsequently adjusted pursuant to  
Section 4.9(d)(i) or 4.9(d)(ii). [ / ]

"Affiliate" means, with respect to any Person, any other Person that directly  
or indirectly through one or more intermediaries controls, is controlled by or  
is under common control with, the Person in question. As used herein, the term  
"control" means the possession, direct or indirect, of the power to direct or  
cause the direction of the management and policies of a Person, whether through  
ownership of voting securities, by contract or otherwise.

"Aggregate Remaining Net Positive Adjustments" means as of the end of any  
taxable period, the sum of the Remaining Net Positive Adjustments of all the  
Partners.

"Agreed Allocation" means any allocation, other than a Required Allocation,  
of an item of income, gain, loss or deduction pursuant to the provisions of  
Section 5.1, including, without limitation, a Curative Allocation (if  
appropriate to the context in which the term "Agreed Allocation" is used).

"Agreed Value" of any Contributed Property means the fair market value of  
such property or other consideration at the time of contribution as determined  
by the General Partner using such reasonable method of valuation as it may  
adopt. [ / ]; provided, however, that the Agreed Value of any property deemed  
contributed to the Partnership for federal income tax purposes upon termination  
and reconstitution thereof pursuant to Section 708 of the Code shall be  
determined in accordance with Section 4.9(c)(i). [ / ] Subject to Section  
4.9(c)(i), the General Partner shall, in its sole discretion, use such method as  
it deems reasonable and appropriate to allocate the aggregate Agreed Value of  
Contributed Properties contributed to the Partnership in a single or integrated  
transaction among each separate property on a basis proportional to the fair  
market value of each Contributed Property.

"Agreement" means this Amended and Restated Agreement of Limited Partnership  
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of Star Gas Partners, L.P., as it may be amended, supplemented or restated from  
time to time.

"Assignee" means a Non-citizen Assignee or a Person to whom one or more Units representing a Limited Partner Interest have been transferred in a manner permitted under this Agreement and who has executed and delivered a Transfer Application as required by this Agreement, but who has not become a Substituted Limited Partner.

"Associate" means, when used to indicate a relationship with any Person, (a) any corporation or organization of which such Person is a director, officer or partner or is, directly or indirectly, the owner of 20% or more of any class of voting stock or other voting interest; (b) any trust or other estate in which such Person has at least a 20% beneficial interest or as to which such Person serves as trustee or in a similar fiduciary capacity; and (c) any relative or spouse of such Person, or any relative of such spouse, with [] who has [/] the same residence as such Person.

"Audit Committee" means a committee of the Board of Directors of the General Partner composed entirely of two or more directors who are neither members, officers nor employees of the General Partner or members, stockholders (other than holders of Common Units or Senior Subordinated Units), officers, directors or employees of any Affiliate of the General Partner.

"Available Cash," as to any Quarter ending before the Liquidation Date, means (a) the sum of (i) all cash and cash equivalents of the Partnership Group on hand at the end of such Quarter and (ii) all additional cash and cash equivalents of the Partnership Group on hand on the date of determination of Available Cash with respect to such Quarter resulting from Working Capital Borrowings subsequent to the end of such Quarter, less

(b) the amount of cash reserves that is necessary or appropriate in the reasonable discretion of the General Partner to (i) provide for the proper conduct of the business of the Partnership Group (including reserves for future capital expenditures) subsequent to such Quarter, (ii) provide funds for distributions under Sections 5.4(a) (i), (ii) and (iii) or 5.4(b) (i) in respect of any one or more of the next four Quarters, or (iii) comply with applicable law or any debt instrument or other agreement or obligation to which any member of the Partnership Group is a party or its assets are subject; provided, however, that the General Partner may not establish cash reserves for distributions pursuant to Section 5.4(a) (iii) unless the General Partner has determined that in its judgment the establishment of reserves will not prevent the Partnership from distributing the Minimum Quarterly Distribution on all Common Units and any Common Unit Arrearages thereon with respect to the next four Quarters; and, provided, further, that disbursements made by a Group Member or cash reserves established, increased or reduced after the end of such Quarter but on or before the date of determination of Available Cash with respect to such Quarter shall be deemed to have been made, established, increased or reduced, for purposes of determining Available Cash, within such Quarter if the General Partner so determines.

Notwithstanding the foregoing, "Available Cash" with respect to the Quarter in which the Liquidation Date occurs and any subsequent Quarter shall equal

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zero.  
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"Book Basis Derivative Items" means any item of income, deduction, gain, or loss included in the determination of Net Income, Net Loss, Net Termination Gain or Net Termination Loss that is computed with reference to the Carrying Value of an Adjusted Property (e.g., depreciation, depletion, or gain or loss with respect to an Adjusted Property).

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"Book-Down Event" means an event which triggers a negative adjustment to the Capital Accounts of the Partners pursuant to Section 4.9(d).

"Book-Tax Disparity" means with respect to any item of Contributed Property or Adjusted Property, as of the date of any determination, the difference between the Carrying Value of such Contributed Property or Adjusted Property and the adjusted basis thereof for federal income tax purposes as of such date. A Partner's share of the Partnership's Book-Tax Disparities in all of its Contributed Property and Adjusted Property will be reflected by the difference between such Partner's Capital Account balance as maintained pursuant to Section 4.9 and the hypothetical balance of such Partner's Capital Account computed as if it had been maintained strictly in accordance with federal income tax accounting principles.

"Book-Up Event" means an event which triggers a positive adjustment to the Capital Accounts of the Partners pursuant to Section 4.9(d).

"Business Day" means Monday through Friday of each week, except that a legal holiday recognized as such by the government of the United States or the states of New York or Connecticut shall not be regarded as a Business Day.

"Capital Account" means the capital account maintained for a Partner pursuant to Section 4.9. The "Capital Account" in respect of a Common Unit, a Senior Subordinated Unit, a Junior Subordinated Unit, a General Partner Unit or any other specified interest in the Partnership shall be the amount which such Capital Account would be if such Common Unit, Senior Subordinated Unit, Junior Subordinated Unit, General Partner Unit or other interest in the Partnership were the only interest in the Partnership held by a  Limited  Partner.

"Capital Contribution" means any cash, cash equivalents or the Net Agreed Value of Contributed Property that a Partner contributes or has contributed to the Partnership pursuant to this Agreement and the Conveyance and Contribution  Agreement or Sections 4.1, 4.2, 4.3, 4.4, 4.9(c)(i), 13.3(c) or 14.8.  Agreements.

"Capital Improvements" means (a) additions or improvements to the capital assets owned by any Group Member or (b) the acquisition of existing or the construction of new capital assets (including retail distribution outlets, propane tanks, pipeline systems, storage facilities and related assets), made to increase the operating capacity of the Partnership Group from the operating capacity of the Partnership Group existing immediately prior to such addition, improvement, acquisition or construction.

"Capital Surplus" has the following meaning: all Available Cash distributed by the Partnership from any source will be treated as distributed from Operating Surplus until the sum of all Available Cash distributed since the commencement of the Partnership equals the Operating Surplus as of the end of the Quarter prior to such distribution. Any excess Available Cash will be deemed to be Capital Surplus.

"Carrying Value" means (a) with respect to a Contributed Property, the Agreed Value of such property reduced (but not below zero) by all depreciation, amortization and cost recovery deductions

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charged to the Partners' and Assignees' Capital Accounts in respect of such Contributed Property, and (b) with respect to any other Partnership property, the adjusted basis of such property for federal income tax purposes, all as of the time of determination. The Carrying Value of any property shall be adjusted from time to time in accordance with Sections 4.9(d)(i) and 4.9(d)(ii) and to reflect changes, additions or other adjustments to the Carrying Value for dispositions and acquisitions of Partnership properties, as deemed appropriate by the General Partner.

"Cause" means a court of competent jurisdiction has entered a final, non-appealable judgment finding the General Partner liable for actual fraud, gross negligence or willful or wanton misconduct in its capacity as general partner of the Partnership.

"Certificate" means a certificate, (i) substantially in the form of Exhibit A [ ] to this Agreement [ / ] hereto with respect to Common Units and Exhibit B hereto with respect to Senior Subordinated Units or (ii) issued in global form in accordance with the rules and regulations of the Depository, or (iii) in such other form as may be adopted by the General Partner in its sole discretion, issued by the Partnership evidencing ownership of one or more Common Units or Senior Subordinated Units, as the case may be, or a certificate, in such form as may be adopted by the General Partner in its sole discretion, issued by the Partnership evidencing ownership of one or more other Units.

"Certificate of Limited Partnership" means the Certificate of Limited Partnership filed with the Secretary of State of the State of Delaware as referenced in Section 6.2, as such Certificate of Limited Partnership may be amended, supplemented or restated from time to time.

"Citizenship Certification" means a properly completed certificate in such form as may be specified by the General Partner by which an Assignee or a Limited Partner certifies that he (and if he is a nominee holding for the account of another Person, that to the best of his knowledge such other Person) is an Eligible Citizen.

"Claim" has the meaning assigned to such term in Section 6.13(c).

[ ] "Closing Date" means the first date on which Common Units are sold by the Partnership to the Underwriters pursuant to the provisions of the Underwriting Agreement. [ / ] "Class A Common Unit" means a Unit representing a fractional part of the Partnership Interests of all Limited Partners and Assignees and having the rights and obligations specified with respect to Class A Common Units in this Agreement; no Class A Common Units shall be outstanding until the expiration of the Subordination Period, at which time all Common Units Outstanding immediately prior to the expiration of the Subordination Period shall be redesignated as Class A Common Units.

[ ] "Closing Price" has the meaning assigned to such term in Section 17.1(a). [ / ] "Class B Common Unit" means a Unit representing a fractional part of the Partnership Interests of all Limited Partners and Assignees and having the rights and obligations specified with respect to Class B Common Units in this Agreement; no Class B Common Units shall be outstanding until the expiration of the Subordination Period, at which time each Outstanding Senior Subordinated Unit and Junior Subordinated Unit shall convert into one Class B Common Unit.

"Closing Price" for any day means the last sale price on such day, regular way, or in case no such sale takes place on such day, the average of the closing bid and asked prices on such day, regular way, in either case as reported in the principal consolidated transaction reporting system with

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respect to securities listed or admitted to trading on the principal National Securities Exchange (other than the Nasdaq Stock Market) on which the Units of such class are listed or admitted to trading or, if the Units of such class are not listed or admitted to trading on any National Securities Exchange (other than the Nasdaq Stock Market), the last quoted price on such day or, if not so quoted, the average of the high bid and low asked prices on such day in the over-the-counter market, as reported by the Nasdaq Stock Market or such other system then in use, or, if on any such day the Units of such class are not quoted by any such organization, the average of the closing bid and asked prices on such day as furnished by a professional market maker making a market in the Units of such class selected by the Board of Directors of the General Partner, or if on any such day no market maker is making a market in the Units of such class, the fair value of such Units on such day as determined reasonably and in good faith by the Board of Directors of the General Partner.

"Code" means the Internal Revenue Code of 1986, as amended and in effect from time to time. Any reference herein to a specific section or sections of the Code shall be deemed to include a reference to any corresponding provision of future law.

"Combined Interest" has the meaning assigned to such term in Section 13.3(a).

"Commission" means the Securities and Exchange Commission.

"Common Unit" means a Unit representing a fractional part of the Partnership Interests of all Limited Partners and Assignees and having the rights and obligations specified with respect to Common Units in this Agreement. All references herein to Common Units after the expiration of the Subordination Period shall be deemed to be references to both Class A Common Units and Class B Common Units, unless otherwise indicated.

"Common Unit Arrearage" means, with respect to any Common Unit, whenever issued, and as to any Quarter within the Subordination Period, the excess, if any, of (a) the Minimum Quarterly Distribution then in effect with respect to such Common Unit over (b) the sum of all Available Cash distributed with respect to such Common Unit in respect of such Quarter pursuant to Section 5.4(a)(i).

"Contributed Property" means each property or other asset, in such form as may be permitted by the Delaware Act, but excluding cash, contributed to the Partnership (or deemed contributed to the Partnership on termination and reconstitution thereof pursuant to Section 708 of the Code). Once the Carrying



Value of a Contributed Property is adjusted pursuant to Section 4.9(d), such property shall no longer constitute a Contributed Property, but shall be deemed an Adjusted Property.

["Contribution" means any cash, cash equivalents or the Net Agreed Value of any other property or asset that a Partner contributes to the Partnership pursuant to the[/] "Conveyance and Contribution Agreements" means collectively,

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(i) that certain Conveyance and Contribution Agreement, dated as of the  
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Effective Time, among the Partnership, the Operating Partnership, Petro and the  
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General Partner and (ii) [ ]Article IV or Section 13.3(c).[/]

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["Conveyance and Contribution Agreement" means[/] that certain Conveyance and Contribution Agreement, [ ]dated as of the Closing Date, between Star Gas,[/]  
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among the Partnership, the Operating Partnership and certain other parties[/],  
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Petro and Petro Holdings, together with the additional conveyance documents and  
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instruments contemplated or referenced thereunder.

"Cumulative Common Unit Arrearage" means, with respect to any Common Unit, whenever issued, and as of the end of any Quarter, the excess, if any, of (a) the sum resulting from adding together the Common Unit Arrearage as to a Unit issued in the Initial Offering for each of the Quarters within the Subordination Period ending on or before the last day of such Quarter over (b) the sum of any distributions theretofore made pursuant to Section 5.4(a)(ii) with respect to such Common Unit (including any distributions to be made in respect of the last of such Quarters).

"Curative Allocation" means any allocation of an item of income, gain, deduction, loss or credit pursuant to the provisions of Section 5.1(d)(xi).

"Current Market Price" [ ] has the meaning assigned to such term in Section 17.1(a). as of any date of any class of Units listed or admitted to trading on  
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any National Securities Exchange means the average of the daily Closing Prices  
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per Unit of such class for the 20 consecutive Trading Days immediately prior to  
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such date.  
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"Debt Offering" means the offering and sale by Petro of \$       million Senior  
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Subordinated Notes due       .

"Delaware Act" means the Delaware Revised Uniform Limited Partnership Act, 6 Del C. (S)17-(S)17-101, et seq., as amended, supplemented or restated from time to time, and any successor to such statute.

"Departing Partner" means a former General Partner from and after the effective date of any withdrawal or removal of such former General Partner pursuant to Section 13.1 or 13.2.

"Depository" means with respect to any Units issued in global form, the  
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Depository Trust Company and its successors and permitted assigns.  
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"EBITDA" means operating income plus depreciation, amortization and non-cash  
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charges (excluding expenses related to the consummation of the Merger and the  
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transactions contemplated thereby).  
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"Economic Risk of Loss" has the meaning set forth in Treasury Regulation Section 1.752-2(a).

"Effective Time" means the effective time of the Merger, which shall be the later to occur of (i) the filing in the office of the Secretary of State of the State of Delaware of a properly executed certificate of merger and (ii) the filing with the Department of State of Minnesota of properly executed articles of merger, or such later date and time as may be set forth in such certificate of merger and articles of merger.

"Eligible Citizen" means a Person qualified to own interests in real property in jurisdictions in which any Group Member does business or proposes to do business from time to time, and whose status as a Limited Partner or Assignee does not or would not subject such Group Member to a significant risk of cancellation or forfeiture of any of its properties or any interest therein.

"Equity Offering" means the offering and sale by the Partnership of Common Units to the public, as described in the Equity Registration Statement.

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"Equity Registration Statement" means the Registration Statement on Form S-3 (Registration No. 33-98490)-333-68329), as it has been or as it may be amended or supplemented from time to time, filed by the Partnership with the Commission under the Securities Act to register the offering and sale of the Common Units in the Initial Equity Offering.

"Event of Withdrawal" has the meaning assigned to such term in Section 13.1(a).

"First Liquidation Target Amount" has the meaning assigned to such term in Section 5.1(c)(i)(5).

"First Target Distribution" means \$0.604 per Unit, [(or, with respect to the period commencing on the Closing Dte and ending on March 31, 1996, the product of \$0.604 multiplied by a fraction of which the numerator is the number of days in such period and of which the denominator is 91) [/], subject to adjustment in accordance with Sections 5.6 and 5.8.

"General Partner" means Star Gas LLC, a Delaware limited liability company, and its successor as general partner of the Partnership.

"General Partner Interest" means the ownership interest of the General Partner in the Partnership (in its capacity as a general partner without reference to any Limited Partner Interest held by it) which is evidenced by General Partner Units and includes any and all benefits to which the General Partner is entitled as provided in this Agreement, together with all obligations of the General Partner to comply with the terms and provisions of this Agreement.

"General Partner Unit" means a Unit representing a fractional part of the General Partner Interest and having the rights and obligations specified with respect to the General Partner Interest.

"Group" means a Person that with or through any of its Affiliates or

Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting (except voting pursuant to a revocable proxy or consent given to such Person in response to a proxy or consent solicitation made to 10 or more Persons) or disposing of any Partnership Securities with any other Person that beneficially owns, or whose Affiliates or Associates beneficially own, directly or indirectly, Partnership Interests.

"Group Member" means a member of the Partnership Group.

"Holder" has the meaning assigned to such term in Section 6.13(a).

["Incentive Distribution" means any amount of each distributed to the General Partner, in its capacity as general partner of the Partnership, pursuant to Sections 5.4(a)(v), (vi) or (vii) and Sections 5.4(b)(iii), (iv) or (v) which exceeds an amount equal to 1.0% of the aggregate amount of cash then being distributed pursuant to such provisions.[]]

"includes" means includes, without limitation, and "including" means including, without limitation.

"Indemnified Persons" has the meaning assigned to such term in Section 6.13(c).

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"Indemnitee" means (a) the General Partner, any Departing Partner, any Person who is or was an Affiliate of the General Partner or any Departing Partner, (b) any Person who is or was an officer, director, employee, partner, agent or trustee of the General Partner or any Departing Partner or any such Affiliate, or (c) any Person who is or was serving at the request of the General Partner or any Departing Partner or any such Affiliate as a director, officer, employee, partner, agent, fiduciary or trustee of another Person; provided that a Person shall not be an Indemnitee pursuant to this clause (c) by reason of providing, on a fee-for-services basis, trustee, fiduciary or custodial services.

"Initial Closing Date" means December 20, 1995.  
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"Initial Common Units" means the Common Units sold in the Initial Offering.

"Initial General Partner" means Star Gas Corporation, a Delaware corporation.  
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"Initial Limited Partners" means Star Gas, Silgas, Inc. and Silgas of Illinois, Inc. [(with respect to the Subordinated Units received by them pursuant to Section 4.2) and the[] and the Initial Underwriters, in each case  
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upon being admitted to the Partnership in accordance with Section 12.1.

"Initial Offering" means the initial offering and sale of Common Units to the public on December 20, 1995, as described in the Initial Registration  
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Statement.

"Initial Overallotment Closing Date" means January 18, 1996.  
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"Initial Registration Statement" means the Registration Statement on Form S-1 (Registration No. 33-98490), as amended or supplemented from time to time, filed by the Partnership with the Commission under the Securities Act to register the offering and sale of the Initial Common Units in the Initial Offering.

"Initial Underwriters" means each person named as an underwriter in the Initial Offering.

"Initial Unit Price" means (a) [the initial public offering price per Common Unit at which the Underwriters offered the Common Units to the public for sale as set forth on the cover page of the prospectus first issued at or after the time the Registration Statement first became effective[] with respect to each  
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Common Unit, Senior Subordinated Unit, Junior Subordinated Unit and General  
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Partner Unit, \$22.00 or (b) with respect to any other class or series of Units,  
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the price per Unit at which such class or series of Units is initially sold by  
the Partnership, as determined by the General Partner, in each case adjusted as  
the General Partner determines to be appropriate to give effect to any  
distribution, subdivision or combination of Units.

"Interim Capital Transactions" means the following transactions if they occur  
prior to the Liquidation Date: (a) borrowings, refinancings or refundings of  
indebtedness and sales of debt securities (other than Working Capital  
purposes Working Capital Borrowings and other than for items purchased on  
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open account in the ordinary course of business) by any Group Member; (b) sales  
of equity interests (including Common Units sold to the Underwriters pursuant to  
the exercise of the Overallotment Option, but excluding the contributions made  
pursuant to the Additional Capital Contribution Obligation) by any Group  
Member; and (c) sales or other voluntary or involuntary dispositions of any  
assets of any Group Member other than (x) sales or other dispositions of

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inventory in the ordinary course of business, (y) sales or other dispositions  
of other current assets, including receivables and accounts in the ordinary  
course of business, and (z) sales or other dispositions of assets as part of  
normal retirements or replacements.

"Common Junior Subordinated Unit" means a Unit representing a fractional  
part of the Partnership Interests of all Limited Partners and Assignees and  
having the rights and obligations specified with respect to Common Junior  
Subordinated Units in this Agreement.

"Issue Price" means the price at which a Unit is purchased from the  
Partnership, after taking into account any sales commission or underwriting  
discount charged to the Partnership. "Limited Partner" means, unless the  
context otherwise requires, (a) the Organizational Limited Partner, each  
Initial Limited Partner, each Substituted Limited Partner, each Additional  
Limited Partner and any Departing Partner upon the change of its status from  
General Partner to Limited Partner pursuant to Section 13.3; and (b) solely for  
purposes of Articles IV, V, VI and IX and Sections 14.3 and 14.4, each  
Assignee.

"Limited Partner Interest" means the ownership interest of a Limited Partner  
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in the Partnership which is evidenced by Common Units, Senior Subordinated  
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Units and Junior Subordinated Units or other Partnership Securities and  
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includes any and all benefits to which a Limited Partner is entitled as  
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provided in this Agreement, together with all obligations of a Limited Partner  
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to comply with the terms and provisions of this Agreement.  
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"Liquidation Date" means (a) in the case of an event giving rise to the  
dissolution of the Partnership of the type described in clauses (a) and (b) of  
the first sentence of Section 14.2, the date on which the applicable time  
period during which the holders of Outstanding Units have the right to elect to  
reconstitute the Partnership and continue its business has expired without such  
an election being made, and (b) in the case of any other event giving rise to  
the dissolution of the Partnership, the date on which such event occurs.

"Liquidator" means the General Partner or other Person approved pursuant to  
Section 14.3 who performs the functions described therein.

"Maintenance Capital Expenditures" means cash capital expenditures made to  
maintain, up to the level thereof that existed at the time of such expenditure,  
the operating capacity of the capital assets of the Partnership Group, as such  
assets existed at the time of such expenditure and shall, therefore, not  
include cash capital expenditures made in respect of Acquisitions and Capital  
Improvements. Where cash capital expenditures are made in part to maintain the  
operating capacity level referred to in the immediately preceding sentence and  
in part for other purposes, the General Partner's good faith allocation thereof  
between the portion used to maintain such operating capacity level and the

portion used for other purposes shall be conclusive.

"Mergeco" has the meaning assigned to such term in the introductory paragraph  
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to this Agreement.  
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"Merger" has the meaning assigned to such term in the introductory paragraph  
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to this Agreement.  
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"Merger Agreement" has the meaning assigned to such term in Section 16.1.

"Minimum Quarterly Distribution" means []\$0.55[/] \$0.575 per Unit per Quarter [] (or with respect to [/], subject to adjustment in accordance with Sections 5.6 and 5.8; provided, however, the Minimum Quarterly Distribution with respect to the Senior Subordinated Units, Junior Subordinated Units and General Partner Units for the period commencing on the [] Closing Date [/]Effective Time and ending on []March 31, 1996, [/] June 30, 1999, shall be equal to the product of [] \$0.55[/] \$0.575 multiplied by a fraction of which the numerator is the number of days in such period and of which the denominator is 91 []), subject to adjustment in accordance with Sections 5.6 and 5.8.[/]

"National Securities Exchange" means an exchange registered with the Commission under Section 6(a) of the Securities Exchange Act of 1934, as amended, supplemented or restated from time to time, and any successor to such statute, or the Nasdaq Stock Market or any successor thereto.

"Net Agreed Value" means, (a) in the case of any Contributed Property, the Agreed Value of such property reduced by any liabilities either assumed by the Partnership upon such contribution or to which such property is subject when contributed, and (b) in the case of any property distributed to a Partner or Assignee by the Partnership, the Partnership's Carrying Value of such property (as adjusted pursuant to Section 4.9(d)(ii)) at the time such property is distributed, reduced by any indebtedness either assumed by such Partner or Assignee upon such distribution or to which such property is subject at the time of distribution, in either case, as determined under Section 752 of the Code.

"Net Income" means, for any taxable year, the excess, if any, of the Partnership's items of income and gain (other than those items taken into account in the computation of Net Termination Gain or Net Termination Loss) for such taxable year over the Partnership's items of loss and deduction (other than those items taken into account in the computation of Net Termination Gain or Net Termination Loss) for such taxable year. The items included in the calculation of Net Income shall be determined in accordance with Section 4.9(b) and shall not include any items specially allocated under Section 5.1(d); provided that the determination of the items that have been specially allocated under Section 5.1(d) shall be made as if Section 5.1(d)(xii) were not in the Agreement.

"Net Loss" means, for any taxable year, the excess, if any, of the Partnership's items of loss and deduction (other than those items taken into account in the computation of Net Termination Gain or Net Termination Loss) for such taxable year over the Partnership's items of income and gain (other than those items taken into account in the computation of Net Termination Gain or Net Termination Loss) for such taxable year. The items included in the calculation of Net Loss shall be determined in accordance with Section 4.9(b) and shall not include any items specially allocated under Section 5.1(d); provided that the determination of the items that have been specially allocated under Section 5.1(d) shall be made as if Section 5.1(d)(xii) were not in the Agreement.

"Net Positive Adjustments" means, with respect to any Partner, the excess, if any, of the total positive adjustments over the total negative adjustments made to the Capital Account of such Partner pursuant to Book-Up and Book-Down Events.

"Net Termination Gain" means, for any taxable year, the sum, if positive, of all items of income, gain, loss or deduction recognized by the Partnership

(including, without limitation, such

amounts recognized through the Operating Partnership) after the Liquidation Date. The items included in the determination of Net Termination Gain shall be determined in accordance with Section 4.9(b) and shall not include any items of income, gain or loss specially allocated under Section 5.1(d).

"Net Termination Loss" means, for any taxable period, the sum, if negative, of all items of income, gain, loss or deduction recognized by the Partnership (including, without limitation, such amounts recognized through the Operating Partnership) after the Liquidation Date. The items included in the determination of Net Termination Loss shall be determined in accordance with Section 4.9(b) and shall not include any items of income, gain or loss specially allocated under Section 5.1(d).

"Non-citizen Assignee" means a Person whom the General Partner has determined in its sole discretion does not constitute an Eligible Citizen and as to whose Partnership Interest the General Partner has become the Substituted Limited Partner, pursuant to Section 11.5.

"Non-competition Agreement" means that certain non-competition agreement [] between Petroleum Heat and Power Co., Inc. ("Petro") and the Partnership pursuant to which Petro has agreed with the Partnership that neither Petro nor any of its Affiliates will acquire a business which derives any revenues from the sale of propane, if, after giving effect to such acquisition, Petro's Pro Forma Propane Volumes would equal or exceed the lesser of (i) 15% of the Partnership's reported propane volumes sold for the most recently completed four fiscal quarters which ended at least 90 days prior to the date of such acquisition or (ii) 15 million gallons of propane. Petro's Pro Forma Propane Volume means the actual propane volumes sold by Petro and any of its Affiliates (other than the Partnership) for the most recently completed four fiscal quarters which ended at least 90 days prior to the date of determination plus the propane volumes sold by the propane business to be acquired for the most recently completed four fiscal quarters which ended at least 90 days prior to the date of determination. Petro and the Partnership have further agreed pursuant to the Non-competition Agreement that in the event that Petro or an Affiliate owns a propane business, Petro or such Affiliate may not accept as a customer any person who is a customer of the Partnership. [/] among Irik. P. Sevin, the Partnership and the Operating Partnership.

"Nonrecourse Built-in Gain" means with respect to any Contributed Properties or Adjusted Properties that are subject to a mortgage or pledge securing a Nonrecourse Liability, the amount of any taxable gain that would be allocated to the Partners pursuant to Sections 5.2(b) (i) (1), 5.2(b) (ii) (1) and 5.2(b) (iii) if such properties were disposed of in a taxable transaction in full satisfaction of such liabilities and for no other consideration.

"Nonrecourse Deductions" means any and all items of loss, deduction or expenditures (described in Section 705(a) (2) (B) of the Code) that, in accordance with the principles of Treasury Regulation Section 1.704-2(b), are attributable to a Nonrecourse Liability.

"Nonrecourse Liability" has the meaning set forth in Treasury Regulation Section 1.752-1(a) (2).

"Notice of Election to Purchase" has the meaning assigned to such term in Section 17.1(b).

"Old Subordinated Units" means the Subordinated Units issued to the Initial -----  
General Partner on the Initial Closing Date.  
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"Operating Expenditures" means all Partnership Group expenditures, including taxes, reimbursements of the General Partner, debt service payments, and capital expenditures, subject to the following:

(a) Payments (including prepayments) of principal and premium on a debt shall not be an Operating Expenditure if the payment is (i) required in connection with the sale or other disposition of assets or (ii) made in connection with the refinancing or refunding of indebtedness with the proceeds from new indebtedness or from the sale of equity interests. For purposes of the foregoing, at the election and in the reasonable discretion of the General Partner, any payment of principal or premium shall be deemed to be refunded or refinanced by any indebtedness incurred or to be incurred by the Partnership Group within 180 days before or after such payment to the extent of the principal amount of such indebtedness.

(b) Operating Expenditures shall not include (i) capital expenditures made for Acquisitions or for Capital Improvements, (ii) payment of transaction expenses relating to Interim Capital Transactions [] or (iii) [ / ], (iii) ----- payment of transaction expenses related to the Merger and the transactions ----- contemplated thereby or (iv) distributions to Partners. Where capital ----- expenditures are made in part for Acquisitions or Capital Improvements and in part for other purposes, the General Partner's good faith allocation between the amounts paid for each shall be conclusive.

"Operating Partnership" means Star Gas Propane, L.P., a Delaware limited partnership, and any successors thereto.

"Operating Partnership Agreement" means the Amended and Restated Agreement of Limited Partnership of the Operating Partnership, as it may be amended, supplemented or restated from time to time.

"Operating Surplus," as to any period ending before the Liquidation Date, means

(a) the sum of (i) \$[20,071,225] plus all cash of the Partnership Group on hand as of the close of business on the Initial Closing Date [] and [ / ], (ii) ----- all the cash receipts of the Partnership Group for the period beginning on the Initial Closing Date and ending with the last day of such period, other than ----- cash receipts from Interim Capital Transactions (except to the extent specified ----- in Section 5.5) and (iii) all cash receipts of the Partnership Group after the ----- end of such period but on or before the date of determination of Operating ----- Surplus with respect to such period resulting from Working Capital Borrowings, ----- less

(b) the sum of (i) Operating Expenditures for the period beginning on the Initial Closing Date and ending with the last day of such period, and (ii) the amount of cash reserves that is necessary or advisable in the reasonable discretion of the General Partner to provide funds for future Operating Expenditures; provided, however, that disbursements made (including ----- contributions to a Group Member or disbursements on behalf of a Group Member) ----- or cash reserves established, increased or reduced after the end of such period ----- but on or before the date of determination of Available Cash with respect to ----- such period shall be deemed to have been made, established, increased or ----- reduced, for purposes of determining Operating Surplus, within such period if ----- the General Partner so determines. -----

Notwithstanding the foregoing, "Operating Surplus" with respect to the Quarter ----- in which the Liquidation Date occurs and any subsequent Quarter shall equal

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zero.  
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"Opinion of Counsel" means a written opinion of counsel (who may be regular counsel to [ ]Star Gas any Affiliate of Star Gas, the Partnership or the General Partner) [ / ] the Partnership, the General Partner or any of its Affiliates)  
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acceptable to the General Partner in its reasonable discretion.

"Organizational Limited Partner" means William G. Powers, Jr., in his capacity as the organizational limited partner of the Partnership.

"Original Agreement" has the meaning assigned to such term in the Recitals to  
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this Agreement.  
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"Outstanding" means, with respect to Partnership Securities, all Partnership Securities that are issued by the Partnership and reflected as outstanding on the Partnership's books and records as of the date of determination.

"Over allotment Option" means the over allotment option granted to the Underwriters by the Partnership pursuant to the Underwriting Agreement.

"Parity Units" means Common Units and all other Units having rights to distributions or in liquidation ranking on a parity with the Common Units.

"Partner Nonrecourse Debt" has the meaning set forth in Treasury Regulation Section 1.704-2(b) (4).

"Partner Nonrecourse Debt Minimum Gain" has the meaning set forth in Treasury Regulation Section 1.704-2(i) (2).

"Partner Nonrecourse Deductions" means any and all items of loss, deduction or expenditure (including, without limitation, any expenditure described in Section 705(a) (2) (B) of the Code) that, in accordance with the principles of Treasury Regulation Section 1.704-2(i), are attributable to a Partner Nonrecourse Debt.

"Partners" means the General Partner and the Limited Partners.

"Partnership" means Star Gas Partners, L.P., a Delaware limited partnership, and any successors thereto.

"Partnership Group" means the Partnership, the Operating Partnership and any Subsidiary of either such entity, treated as a single consolidated entity.

"Partnership Interest" means an interest in the Partnership, which shall include [ ]general partner interests, Common Units, Subordinated Units or other Partnership Securities, or a combination thereof or interest therein, as the case may be. [ / ] General Partner Interests and Limited Partner Interests.  
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"Partnership Minimum Gain" means that amount determined in accordance with the principles of Treasury Regulation Section 1.704-2(d).

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"Partnership Security" means any class or series of Unit, any option, right, warrant or appreciation rights relating thereto, or any other type of equity interest that the Partnership may lawfully issue, or any unsecured or secured debt obligation of the Partnership that is convertible into any class or series of equity interests of the Partnership.

"Percentage Interest" means as of the date of such determination (a) [ ]as to the General Partner, 1%, (b) [ / ] as to any [ ]Limited [ / ] Partner or Assignee holding Units, the product of (i) [ ]99% [ / ] 100% less the percentage applicable  
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to paragraph (c) (b) multiplied by (ii) the quotient of the number of Units held by such [ ]Limited [ / ] Partner or Assignee divided by the total number of all Outstanding Units, and (c) (b) as to the holders of additional Partnership Securities issued by the Partnership in accordance with Section [ ]4.3 [ / ] 4.4, the percentage established as a part of such issuance.



["Permitted Investments" means securities with a maturity of one year or less that are (x) direct obligations of the United States of America for the payment of which its full faith and credit is pledged, (y) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof or (z) securities of mutual or similar funds which invest exclusively in securities of the type permitted under clauses (x) and (y) above, in each case having assets in excess of \$100 million.[]

"Person" means an individual or a corporation, limited liability company, partnership, joint venture, trust, unincorporated organization, association or other entity.

"Per Unit Capital Amount" means, as of any date of determination, the Capital Account, stated on a per Unit basis, underlying any Unit held by a Person [other than the General Partner or any Affiliate.[]

"Petro" means Petroleum Heat and Power Co., Inc., a Minnesota corporation, an indirect subsidiary of the Operating Partnership.

"Petro Adjusted Operating Surplus" means, with respect to any four-Quarter period, the Adjusted Operating Surplus generated by Petro (which for purposes of this definition includes all subsidiaries of the Partnership primarily engaged in the home heating oil business) during such four-Quarter period, as determined in good faith by a majority of the members of the Board of Directors of the General Partner [who holds Units. [] (with the concurrence of the Audit Committee). In calculating Petro Adjusted Operating Surplus, (i) debt service (including the payment of principal, interest and premium) on all debt incurred or assumed by Petro or any of its Affiliates, the proceeds of which are used by or for the benefit of Petro (including the proceeds from the Debt Offering), shall be included to the extent such debt service is included in the calculation of Operating Surplus, and (ii) debt service (including the payment of principal, interest and premium) on all debt incurred or assumed by Petro or any of its Affiliates, the proceeds of which are not used by or for the benefit of Petro, shall be excluded.

["Pro Rata" [] "Petro Class A Common Stock" means the Class A Common Stock, par value \$.10 per share, of Petro.

"Petro Class C Common Stock" means the Class C Common Stock, par value \$.10 per share, of Petro.

"Petro Holdings" means Petro Holdings, Inc., a Minnesota corporation, a wholly-owned indirect subsidiary of the Operating Partnership.

"Petro Merger Agreement" has the meaning set forth in the Recitals to this Agreement.

"Petro Units," with respect to any date, means the sum of (i) the excess of the number of Units outstanding at the Effective Time over the number of Units outstanding immediately prior to the Effective Time (assuming the simultaneous closing of the Equity Offering), (ii) the number of Units issued by the Partnership thereafter to the extent the net proceeds of which are contributed to Petro (which for purposes hereof includes all subsidiaries of the Partnership primarily engaged in the home heating oil business), (iii) the number of Senior Subordinated Units or Class B Common Units issued pursuant to Section 4.6, and (iv) the deemed number of Units outstanding based upon a contribution of capital to Petro by the Partnership or any Affiliate thereof after the Effective Time (which contribution is not covered by (ii) above or traceable to debt proceeds), which number of deemed Units is obtained by dividing (A) the amount of such contribution by (B) the Current Market Price of a Common Unit. If Petro pays down debt of Petro or debt allocated to Petro from internally generated funds of Petro and if those internally generated funds exist at Petro only because Petro has not paid dividends up to the Partnership in an amount equal to the distributions that would have been paid on the Petro Units had they been actual outstanding Units of the Partnership, then the amount used to pay down such debt will be treated as if it were contributed to Petro by the Partnership. The distribution per Senior Subordinated Unit of the Partnership shall be the amount that the Partnership would have been deemed to have distributed per Petro Unit had they been actual outstanding Units of the Partnership. For purposes of the number of deemed outstanding Units in (iv) above, such Units shall be deemed to be issued on the date of such Capital Contribution. For purposes of determining the number of outstanding Petro Units for any period of time, the number of Units issued in (ii) and (iv) above shall be determined on a weighted average basis based on the amount of time they have been Outstanding. For this purpose, Common Unit means Class A Common Unit upon expiration of the Subordination Period.

"Pro Rata" means (a) when modifying Units or any class thereof, apportioned equally among all designated Units[], and[] in accordance with their respective Percentage Interests, and (b) when modifying Partners[] means 1% of the General Partner and 99% to the Unitholders Pro Rata[], and Assignees, apportioned among all Partners and Assignees in accordance with their respective Percentage Interests.

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"Proxy Statement" means the Registration Statement on Form S-4 (Registration  
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No. 333-66005) as it has been or as it may be amended or supplemented from time  
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to time, filed jointly by the Partnership and Petro relating to the Merger and  
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the transactions contemplated thereby.  
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"Purchase Date" means the date determined by the General Partner as the date  
for purchase of all Outstanding Units of a certain class (other than Units  
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owned by the General Partner and its Affiliates) pursuant to Article XVII.

"Quarter" means, unless the context requires otherwise, a three-month period  
of time ending on March 31, June 30, September 30, or December 31.

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"Recapture Income" means any gain recognized by the Partnership (computed  
without regard to any adjustment required by Sections 734 or 743 of the Code)  
upon the disposition of any property or asset of the Partnership, which gain is  
characterized as ordinary income because it represents the recapture of  
deductions previously taken with respect to such property or asset.

"Record Date" means the date established by the General Partner for  
determining (a) the identity of the Record Holders entitled to notice of, or to  
vote at, any meeting of Limited Partners or entitled to vote by ballot or give  
approval of Partnership action in writing without a meeting or entitled to  
exercise rights in respect of any lawful action of Limited Partners or (b) the  
identity of Record Holders entitled to receive any report or distribution.

"Record Holder" means the Person in whose name a Common Unit or a Senior  
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Subordinated Unit is registered on the books of the Transfer Agent as of the  
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opening of business on a particular Business Day, or with respect to a holder of  
a [ ]general partner interest [ / ]Junior Subordinated Unit or General Partner Unit  
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or other Partnership Security, the Person in whose name such [ ]general partner  
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interest [ / ]Junior Subordinated Unit or General Partner Unit or other  
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Partnership Security is registered on the books of the General Partner as of the  
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opening of business on such Business Day.

"Redeemable Units" means any [ ]Units [ / ]Partnership Interests for which a  
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redemption notice has been given, and has not been withdrawn, pursuant to  
Section 11.6.

[ ]"Reduction Threshold" has the meaning assigned to such term in Section  
4.2(b). [ / ]

"Remaining Net Positive Adjustments" means as of the end of any taxable  
period, (i) with respect to the Limited Partners, as a class, the excess of (a)  
the Net Positive Adjustments of the Limited Partners as of the end of such  
period over (b) the sum of those Partners' Share of Additional Book Basis  
Derivative Items for each prior taxable period, and (ii) with respect to the  
General Partner, the excess of (a) the Net Positive Adjustments of the General  
Partner as of the end of such period over (b) the sum of the General Partner's  
Share of Additional Book Basis Derivative Items for each prior taxable period.

"Required Allocations" means any allocation (or limitation imposed on any  
allocation) of an item of income, gain, deduction or loss pursuant to (a)  
Section 5.1(b)(ii) or (b) Sections 5.1(d)(i), 5.1(d)(ii), 5.1(d)(iv),  
5.1(d)(v), 5.1(d)(vi), 5.1(d)(vii) and 5.1(d)(ix), such allocations (or  
limitations thereon) being directly or indirectly required by the Treasury  
Regulations promulgated under Section 704(b) of the Code.

"Residual Gain" or "Residual Loss" means any item of gain or loss, as the

case may be, of the Partnership recognized for federal income tax purposes resulting from a sale, exchange or other disposition of a Contributed Property or Adjusted Property, to the extent such item of gain or loss is not allocated pursuant to Sections 5.2(b)(i)(1) or 5.2(b)(ii)(1), respectively, to eliminate

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Book-Tax Disparities.

"Second Liquidation Target Amount" has the meaning assigned to such term in Section 5.1(c)(i)(6).

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"Second Target Distribution" means \$0.711 per Unit [] (or, with respect to the period commencing on the Closing Date and ending on March 31, 1996, the product of \$0.711 multiplied by a fraction of which the numerator is equal to the number of days in such period and of which the denominator is 91) [], subject to adjustment in accordance with Sections 5.6 and 5.8.

"Securities Act" means the Securities Act of 1933, as amended, supplemented or restated from time to time and any successor to such statute.

"Senior Subordinated Unit" means a Unit representing a fractional part of the Partnership Interests of all Limited Partners and Assignees, and having the rights and obligations specified with respect to Senior Subordinated Units in this Agreement.

"Share of Additional Book Basis Derivative Items" means in connection with any allocation of Additional Book Basis Derivative Items for any taxable period, (i) with respect to the Limited Partners, as a class, the amount that bears the same ratio to such Additional Book Basis Derivative Items as the Limited Partners' Remaining Net Positive Adjustments as of the end of such period bears to the Aggregate Remaining Net Positive Adjustments as of that time, and (ii) with respect to the General Partner, the amount that bears the same ratio to such Additional Book Basis Derivative Items as the General Partner's Remaining Net Positive Adjustments as of the end of such period bears to the Aggregate Remaining Net Positive Adjustments as of that time.

"Shelf Registration Statement" has the meaning assigned to such term in Section 6.13(f).

"Special Approval" means approval by the Audit Committee.

"Star Gas" means Star Gas Corporation, a Delaware corporation [] and a wholly owned subsidiary of Petroleum Heat and Power Co., Inc., a Minnesota corporation[[]].

"Subordination Period" means the period [] commencing[] that commenced on the Initial Closing Date and ending on the first to occur of the following dates:

(a) the first day of any Quarter beginning on or after [] January[] October 1, [] 2001[] 2002 in respect of which (A) (i) distributions of Available Cash from

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Operating Surplus on each of the Outstanding Common Units [] and[], Senior Subordinated Units, Junior Subordinated Units and General Partner Units equaled or exceeded the Minimum Quarterly Distribution for each of the three non-overlapping four-Quarter periods immediately preceding such date and (ii) the Adjusted Operating Surplus generated during each of the three immediately preceding non-overlapping four-Quarter periods equaled or exceeded the sum of the Minimum Quarterly Distribution on all of the Common Units [] and[], Senior

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Subordinated Units, [] plus the related distributions on the general partner interest, [] Junior Subordinated Units and General Partner Units that were

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Outstanding during such periods on a fully diluted basis with respect to

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employee options or other employee incentive compensation (i.e., taking into

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account for purposes of such determination all Outstanding Common Units, Senior

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Subordinated Units, Junior Subordinated Units and General Partner Units and all

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Common Units issuable upon exercise of employee options that have, as of the

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date of determination, already vested or are scheduled to vest prior to  
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the end of the Quarter immediately following the Quarter with respect to which  
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determination is made, and all Units that have as of the date of determination  
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been earned by but not yet issued to management of the Partnership in respect  
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of incentive compensation) and (B) there are no Cumulative Common Unit  
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Arrearages; and

(b) the date on which the General Partner is removed as general partner of  
the Partnership upon the requisite vote by Limited Partners under circumstances  
where Cause does not exist; provided, however, that if the General Partner is  
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removed during the Subordination Period within 12 months after the end of a  
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six-Quarter period in which the Minimum Quarterly Distribution was not made on  
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the Common Units with respect to more than one of such Quarters (excluding for  
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this purpose the payment of any Common Unit Arrearages) and the first quarter  
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in such six-Quarter period that the Minimum Quarterly Distribution on Common  
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Units was not made occurs after March 31, 2001, then the Subordination Period  
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will not end. In the event that the General Partner is removed under the  
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circumstances set forth in the above proviso, the Junior Subordinated Units  
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shall convert into Senior Subordinated Units on a one-for-one basis and the  
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distribution rights on the General Partner Units will rank pari passu with the  
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Senior Subordinated Units.  
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"Subsidiary" means, with respect to any Person, (a) a corporation of which  
more than 50% of the voting power of shares entitled (without regard to the  
occurrence of any contingency) to vote in the election of directors or other  
governing body of such corporation is owned, directly or indirectly, by such  
Person, by one or more Subsidiaries of such Person or a combination thereof,  
(b) a partnership (whether general or limited) in which such Person or a  
Subsidiary of such Person is, at the date of determination, a general or  
limited partner of such partnership, but only if more than 50% of the  
partnership interests of such partnership (considering all of the partnership  
interests of the partnership as a single class) is owned or controlled,  
directly or indirectly, by such Person, by one or more Subsidiaries of such  
Person, or a combination thereof, or (c) any other Person (other than a  
corporation or a partnership) in which such Person, directly or indirectly, at  
the date of determination, has (i) at least a majority ownership interest or  
(ii) the power to elect or direct the election of a majority of the directors  
or other governing body of such Person.

"Substituted Limited Partner" means a Person who is admitted as a Limited  
Partner to the Partnership pursuant to Section 12.2 in place of and with all  
the rights of a Limited Partner and who is shown as a Limited Partner on the  
books and records of the Partnership.

"Surviving Business Entity" has the meaning assigned to such term in Section  
16.2(b).

"Termination Capital Transaction" means a transaction in which Net  
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Termination Gain or Net Termination Loss is recognized.  
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"Third Target Distribution" means \$0.926 per Unit [] (or, with respect to the

period commencing on the Closing Date and ending on March 31, 1996, the product of \$0.926 multiplied by a fraction of which the numerator is equal to the number of days in such period and of which the denominator is 91), [ / ] subject to adjustment in accordance with Sections 5.6 and 5.8.

"Trading Day" means a day on which the principal National Securities Exchange on which the Units of any class are listed or admitted to trading is open for the transaction of business or, if Units of a class are not listed or admitted to trading on any National Securities Exchange, a day on which banking institutions in New York City generally are open.

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"Transfer" has the meaning assigned to such term in Section 11.1(a).

"Transfer Agent" means such bank, trust company or other Person (including the General Partner or one of its Affiliates) as shall be appointed from time to time by the Partnership to act as registrar and transfer agent for the [ ]Units. [ / ] Common Units and Senior Subordinated Units and as may be appointed from time to time by the General Partner to act as registrar and transfer agent for any other Partnership Securities; provided that if no Transfer Agent is specifically designated for any such other Partnership Securities, the General Partner shall act in such capacity.

"Transfer Application" means an application and agreement for transfer of Units in the form set forth on the back of a Certificate or in a form substantially to the same effect in a separate instrument.

"Underwriter" means each Person named as an underwriter in Schedule 1 to the Underwriting Agreement who purchases Common Units pursuant thereto.

"Underwriting Agreement" means the Underwriting Agreement [ ]dated December 14, 1995, [ / ] relating to the Equity Offering, dated \_\_\_\_\_, among the Underwriters, the Partnership and other parties providing for the purchase of Common Units by such Underwriters.

"Unit" means a Partnership Interest of a [ ]Limited [ / ] Partner or Assignee in the Partnership representing a fractional part of the Partnership Interests of all [ ]Limited [ / ] Partners and Assignees and shall include [ / ], without limitation, Common Units and Subordinated [ / ]Common Units (Class A Common Units and Class B Common Units after the expiration of the Subordination Period), Senior Subordinated Units, Junior Subordinated Units and General Partner Units; provided that each [ ]Common [ / ] Unit at any time Outstanding shall represent the same fractional part of the Partnership Interests of all [ ]Limited [ / ] Partners and Assignees holding [ / ]Common Units as each other [ / ]Common [ / ] Unit and each Subordinated Unit at any time Outstanding shall represent the same fractional part of the Partnership Interests of all Limited Partners and Assignees holding Subordinated [ / ] Units as each other Unit. A Unit shall not include a Petro Unit.

"Unit Majority" means, during the Subordination Period, at least (i) a majority of the Outstanding Common Units [ / ]other than Common Units owned by the General Partner or any Affiliate and, thereafter, at least [ / ] voting as a class and (ii) a majority of the Outstanding Senior Subordinated Units and Junior Subordinated Units voting as a single class, in each case excluding Units owned by the General Partner or any Affiliate, and, after the Subordination Period, at least a majority of the Outstanding Common Units.

"Unrealized Gain" attributable to any item of Partnership property means, as of any date of determination, the excess, if any, of (a) the fair market value of such property as of such date (as determined under Section 4.9(d)) over (b) the Carrying Value of such property as of such date (prior to any adjustment to be made pursuant to Section 4.9(d) as of such date).

"Unrealized Loss" attributable to any item of Partnership property means, as of any date of determination, the excess, if any, of (a) the Carrying Value of such property as of such date (prior to any adjustment to be made pursuant to Section 4.9(d) as of such date) over (b) the fair market value of such property as of such date (as determined under Section 4.9(d)).

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"Unrecovered Initial Unit Price" means, at any time, with respect to [ ] a class or series of Units (other than Subordinated Units), the price per Unit at which such class or series of Units was initially offered to the public for sale by the underwriters in respect of such offering, as determined by the General Partner, [ / ] Common Units, Senior Subordinated Units, Junior Subordinated Units

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or General Partner Units, the Initial Unit Price less the sum of all

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distributions constituting Capital Surplus theretofore made in respect of [ ] a Unit of such class or series that was sold in the initial offering of Units of said class or series constituting Capital Surplus [ / ] an Initial Common Unit and

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any distributions of cash (or the Net Agreed Value of any distributions in kind) in connection with the dissolution and liquidation of the Partnership theretofore made in respect of [ ] a Unit of such class or series that was sold in the initial offering of Units of such class or series [ / ] an Initial Common Unit,

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adjusted as the General Partner determines to be appropriate to give effect to any distribution, subdivision or combination of Units.

[ ] "Unrecovered Subordinated Unit Capital" means, at any time, with respect to a Subordinated Unit, prior to its conversion into a Common Unit pursuant to Sections 5.7(b) and (c), the excess, if any, of (a) the Net Agreed Value (at the time of conveyance) of the undivided interest in the Contributed Property conveyed to the Partnership pursuant to Section 4.2 in exchange for such Subordinated Unit, over (b) the sum of all distributions in respect of a Subordinated Unit constituting Capital Surplus and any distributions of cash (or the Net Agreed Value of any distributions in kind) in connection with the dissolution and liquidation of the Partnership, adjusted as the General Partner determines to be appropriate to give effect to any distribution, subdivision or combination of Subordinated Units. [ / ]

"Withdrawal Opinion of Counsel" has the meaning assigned to such term in Section 13.1(b).

"Working Capital Borrowings" means borrowings pursuant to a facility or other arrangement requiring all borrowings thereunder to be reduced to a relatively small amount each year for an economically meaningful period of time. It being the intent hereof, that borrowings which are not intended exclusively for working capital purposes shall not be treated as Working Capital Borrowings.

ARTICLE III

PURPOSE

Section 3.1 Purpose and Business.

The purpose and nature of the business to be conducted by the Partnership shall be to (a) serve as a limited partner in the Operating Partnership and, in connection therewith, to exercise all the rights and powers conferred upon the Partnership as a limited partner in the Operating Partnership pursuant to the Operating Partnership Agreement or otherwise, (b) engage directly in, or to enter into or form any corporation, partnership, joint venture, limited liability company or other arrangement to engage indirectly in, any business activity that the Operating Partnership is permitted to engage in by the Operating Partnership Agreement and, in connection therewith, to exercise all

of the rights and powers conferred upon the Partnership pursuant to the agreements relating to such business activity, (c) engage directly in, or to enter into or form any corporation, partnership, joint venture, limited

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liability company or other arrangement to engage indirectly in, any business activity that is approved by the General Partner and which lawfully may be conducted by a limited partnership organized pursuant to the Delaware Act and, in connection therewith, to exercise all of the rights and powers conferred upon the Partnership pursuant to the agreements relating to such business activity, and (d) do anything necessary or appropriate to the foregoing, including the making of capital contributions or loans to the Operating Partnership. The General Partner has no obligation or duty to the Partnership, the Limited Partners, or the Assignees to propose or approve, and in its sole discretion may decline to propose or approve, the conduct by the Partnership of any business.

### Section 3.2 Powers.

The Partnership shall be empowered to do any and all acts and things necessary, appropriate, proper, advisable, incidental to or convenient for the furtherance and accomplishment of the purposes and business described in Section 3.1 and for the protection and benefit of the Partnership.

## ARTICLE IV

### CONTRIBUTIONS AND UNITS

#### Section 4.1 Organization Contributions and Return.

In connection with the formation of the Partnership under the Delaware Act, the Initial General Partner made an initial Capital Contribution to the

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Partnership [ ]in the amount of \$10 for an interest in the Partnership and has been [ / ]and was admitted as the general partner of the Partnership, and the

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Organizational Limited Partner made an initial Capital Contribution to the Partnership [ ] in the amount of \$990 for an interest in the Partnership and has been [ / ] and was admitted as a limited partner of the Partnership.

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As of the Closing Date, after giving effect to the transactions contemplated by Sections 4.2 and 4.3 [ / ] Section 4.2 Contributions by Initial Limited Partners.

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On the Initial Closing Date, the Initial Underwriters contributed cash to the Partnership in exchange for 2,600,000 Common Units. On the Initial

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Overallotment Closing Date, the Initial Underwriters contributed cash to the Partnership in exchange for 275,000 Common Units. On the Initial Closing Date,

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the Initial General Partner, Silgas, Inc. and Silgas of Illinois, Inc.

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contributed their interests in the Operating Partnership to the Partnership in exchange for 2,396,078 Old Subordinated Units. Immediately after these

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contributions, the interest of the Organizational Limited Partner [ ]shall be

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terminated; the initial Capital Contributions of each partner shall be refunded; [ / ] was terminated and the Organizational Limited Partner [ ]shall

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cease [ / ]ceased to be a Limited Partner [ / ]of the Partnership. Ninety-nine

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percent of any interest or other profit that may have resulted from the investment or other use of such initial Capital Contributions shall be allocated and distributed to the Organizational Limited Partner, and the balance thereof shall be allocated and distributed to the General Partner. [ / ]

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[Section 4.2] Section 4.3 Contributions at the Effective Time; General Partner Contributions.

(a) At the Closing Date Effective Time and pursuant to the Conveyance and Contribution Agreement Agreements, the General Partner contributed shares of Petro Class A Common Stock and shares of Petro Class C Common Stock to the Partnership in exchange for General Partner Units representing a 1.99% General Partner Interest and shares of Petro Class A Common Stock and shares of Petro Class C Common Stock to the Operating Partnership in exchange for a 0.01% general partner interest in the Operating Partnership. At the Effective Time, pursuant to the Merger and related transactions, Senior Subordinated Units, Junior Subordinated Units and Common Units were issued to former stockholders of Petro and the outstanding Old Subordinated Units were cancelled.

(b) Upon the making of any Capital Contribution to the Partnership by any Person, the General Partner, in its sole discretion, may Silgas, Inc. and Silgas of Illinois, Inc. shall contribute to the Partnership, as a Capital Contribution, a limited partner interest in the Operating Partnership in exchange for 2,220,444, 175,633 and one Subordinated Units, respectively. The limited partner interest in the Operating Partnership contributed by the General Partner, Silgas, Inc. and Silgas of Illinois, Inc. will represent a 98.9899% Percentage Interest (as defined in the Operating Partnership Agreement) in the Operating Partnership.

(b) To enhance the Partnership's ability to pay the Minimum Quarterly Distribution on the Common Units, the General Partner shall be obligated to contribute up to \$6.0 million in additional capital to the Partnership (the "Additional Capital Contribution Obligation"), if, and to the extent that, the amount of Available Cash constituting Operating Surplus (without giving effect to any such additional contribution) with respect to any quarter is less than the amount necessary to distribute the Minimum Quarterly Distribution on all outstanding Common Units for such quarter. If (i) distributions of Available Cash from Operating Surplus (without giving effect to any such additional contribution) with respect to any quarter equaled or exceeded the Minimum Quarterly Distributions on all of the then outstanding Common Units and (ii) the Adjusted Operating Surplus generated during that quarter equaled or exceeded 150% of the sum of the Minimum Quarterly Distribution on all of the then outstanding Common Units (the "Reduction Threshold"), the Additional Capital Contribution Obligation will be reduced by \$1.5 million. To the extent that the Adjusted Operating Surplus generated during a quarter exceeds (or is less than) the Reduction Threshold applicable to such quarter, the amount of such excess (or deficit) shall be carried forward on a cumulative basis and included in determining the Adjusted Operating Surplus in succeeding quarters. If the Partnership is liquidated or the General Partner either (i) is removed as General Partner of the Partnership other than for Cause or (ii) withdraws as General Partner of the Partnership not in violation of this Partnership Agreement, the Additional Capital Contribution Obligation will terminate.

(c) Upon the making of any Capital Contribution to the Partnership by any Person, the General Partner shall be required to make an additional Capital Contribution in an amount equal to 1.01% of the Net Agreed Value of only to the extent necessary such that after taking into account the additional Capital Contribution made by such Person; provided, however, that the General Partner shall be obligated to make a Capital Contribution pursuant to this Section 4.2(c) only to the extent necessary such that after taking into account the additional Capital Contribution made by such Person

and the General Partner pursuant to this Section [ ]4.2(c) and any Capital  
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Contribution made by the General Partner pursuant to Section 4.2(b), [ / ]4.3(b)  
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the General Partner will have a Capital Account equal to at least [ ] 1% [ / ]1.99%  
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of the total of all Capital Accounts.  
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[ ]Section 4.3 Contributions by Initial Limited Partners.[ / ]

[ ]On the Closing Date, subject to completion of the Capital Contributions referred to in Section 4.2, each Underwriter shall contribute to the Partnership cash in an amount equal to the Issue Price per Common Unit, multiplied by the number of Common Units specified in the Underwriting Agreement to be purchased by such Underwriter at the "First Closing Date," as such term is defined in the Underwriting Agreement. In exchange for such Capital Contributions by the Underwriters, the Partnership shall issue Common Units to each Underwriter on whose behalf such Capital Contribution is made in an amount equal to the quotient obtained by dividing (i) the cash contribution to the Partnership by or on behalf of such Underwriter by (ii) the Issue Price per Common Unit.[ / ]

Section 4.4 Issuances of Additional Partnership Securities.

(a) Subject to Section 4.5, the General Partner is authorized to cause the Partnership to issue additional Partnership Securities for any Partnership purpose at any time and from time to time to such Persons for such consideration and on such terms and conditions as shall be established by the General Partner in its sole discretion, all without the approval of any Limited Partners.

(b) Each additional Partnership Security authorized to be issued by the Partnership pursuant to Section 4.4(a) may be issued in one or more classes, or one or more series of any such classes, with such designations, preferences, rights, powers and duties (which may be senior to existing classes and series of Partnership Securities), as shall be fixed by the General Partner in the exercise of its sole discretion, including (i) the right to share Partnership profits and losses or items thereof; (ii) the right to share in Partnership distributions; (iii) the rights upon dissolution and liquidation of the Partnership; (iv) whether, and the terms and conditions upon which, the Partnership may redeem the Partnership Security; (v) whether such Partnership Security is issued with the privilege of conversion and, if so, the terms and conditions of such conversion; (vi) the terms and conditions upon which each Partnership Security will be issued, evidenced by certificates and assigned or transferred; and (vii) the right, if any, of each such Partnership Security to vote on Partnership matters, including matters relating to the relative rights, preferences and privileges of such Partnership Security.

(c) The General Partner is hereby authorized and directed to take all actions that it deems necessary or appropriate in connection with each issuance of Partnership Securities pursuant to this Section 4.4 and to amend this Agreement in any manner that it deems necessary or appropriate to provide for each such issuance, to admit Additional Limited Partners in connection therewith and to specify the relative rights, powers and duties of the holders of the Units or other Partnership Securities being so issued. The General Partner shall do all things necessary to comply with the Delaware Act and is authorized and directed to do all things it deems to be necessary or advisable in connection with any future issuance of Partnership Securities, including compliance with any statute,

rule, regulation or guideline of any federal, state or other governmental agency or any National Securities Exchange on which the Units or other Partnership Securities are listed for trading.

Section 4.5 Limitations on Issuance of Additional Partnership Securities.

The issuance of Partnership Securities pursuant to Section 4.4 shall be subject to the following restrictions and limitations:

(a) During the Subordination Period, the Partnership shall not issue an aggregate of more than [1,300,000/] 2,500,000 additional Parity Units without

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the prior approval of holders of at least a majority of the Outstanding Common Units (excluding Common Units held by the General Partner and its Affiliates).

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In applying this limitation, there shall be excluded Common Units issued (i) in [ ]connection with the exercise of the Overallotment Option[/] the Equity

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Offering, (ii) in accordance with Section 4.5(b) and 4.5(c) and (iii) in

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connection with the [ ]conversion[/] issuance of Senior Subordinated Units or

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Class B Common Units pursuant to Section 4.6.  
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(b) The Partnership may also issue an unlimited number of Parity Units prior to the end of the Subordination Period without the approval of the Unitholders if such issuance occurs (i) in connection with an Acquisition or a Capital Improvement or (ii) within 365 days of, and the net proceeds from such issuance are used to repay debt incurred in connection with, an Acquisition or a Capital Improvement, in each case where such Acquisition or Capital Improvement involves assets that, if acquired by the Partnership as of the date that is one year prior to the first day of the Quarter in which such Acquisition is to be consummated or such Capital Improvement is to be completed, would have resulted, on a pro forma basis, in an increase in

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(i) the amount of Adjusted Operating Surplus generated by the Partnership on a per-Unit basis (for all Outstanding Units) with respect to each of the four most recently completed Quarters (on a pro forma basis) over

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(ii) the actual amount of Adjusted Operating Surplus generated by the Partnership on a per-Unit basis (for all Outstanding Units) (excluding

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Adjusted Operating Surplus attributable to the Acquisition or Capital

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Improvement) with respect to each of such four Quarters.  
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The amount in clause (i) shall be determined on a pro forma basis assuming that (A) all of the Parity Units to be issued in connection with or within 365 days of such Acquisition or Capital Improvement had been issued and outstanding, (B) all indebtedness for borrowed money to be incurred or assumed in connection with such Acquisition or Capital Improvement (other than any such indebtedness that is to be repaid with the proceeds of such offering) had been incurred or assumed, in each case as of the commencement of such four-Quarter period, (C) the personnel expenses that would have been incurred by the Partnership in the operation of the acquired assets are the personnel expenses for employees to be retained by the Partnership in the operation of the acquired assets, and (D) the non-personnel costs and expenses are computed on the same basis as those incurred by the Partnership in the operation of the Partnership's business at similarly situated Partnership facilities.

(c) The Partnership may also issue an unlimited number of Parity Units prior to the end of the Subordination Period without the approval of the Unitholders if the use of proceeds from such issuance is exclusively to repay up to \$20 million of indebtedness of the Partnership or the Operating Partnership.

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(d) During the Subordination Period, the Partnership shall not issue additional Partnership Securities having rights to distributions or in liquidation ranking prior or senior to the Common Units, without the prior approval of [ ]a Unit Majority.[/] at least a majority of the Outstanding Common  
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Units (excluding Common Units held by the General Partner and its Affiliates).  
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[ ](e)[/](e)During the Subordination Period, the Partnership shall not issue  
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additional Partnership Securities that would reduce the percentage of

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distributions allocable to all Units under Sections 5.4(a) (vi) (A),  
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5.4(a) (vii) (A) or 5.4(a) (viii) (A), and Sections 5.4(b) (iii) (A), 5.4(b) (iv) (A)  
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or 5.4(b) (v) (A), without the prior approval of holders of at least a majority  
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of the Outstanding Common Units (excluding Common Units held by the General  
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Partner and its Affiliates).  
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(f) No fractional Units shall be issued by the Partnership.  
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Section 4.6 [ ]Conversion of [ ] Special Issuance of Senior Subordinated Units and  
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Conversion of Senior Subordinated Units and Junior Subordinated  
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Units.  
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(a) For each full non-overlapping four-Quarter period ending on or after the  
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first anniversary of the Effective Time, but prior to the fifth anniversary of  
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the Effective Time, in which the dollar amount of Petro Adjusted Operating  
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Surplus per Petro Unit equals or exceeds \$2.90, the Partnership will issue (i)  
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during the Subordination Period, 303,000 Senior Subordinated Units to the  
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holders of the Senior Subordinated Units, Junior Subordinated Units and the  
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General Partner Units on the Record Date in respect of the distribution for the  
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final Quarter of such non-overlapping four Quarter period, Pro Rata, and (ii)  
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after the Subordination Period, 303,000 Class B Common Units to the holders of  
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the Class B Common Units and the General Partner Units on the Record Date in  
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respect of the distribution for the final Quarter of such non-overlapping four-  
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Quarter period, Pro Rata; provided, that the Partnership may not issue more  
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than 909,000 Senior Subordinated Units and Class B Common Units in the  
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aggregate pursuant to this Section 4.6; and provided, further that the  
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Partnership may not issue more than 303,000 Senior Subordinated Units and Class

B [ ]A total of 599,020 Subordinated Units will convert into Common Units on the  
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first day after the Record Date for distribution in respect of any Quarter  
ending on or after March 31, 1999, and an additional 599,020 Subordinated Units  
will convert into Common Units on the first day after the Record Date for  
distributions in respect of any Quarter ending on or after March 31, 2000, in  
respect of which [ ]

[ ](i) distributions under Section 5.4 in respect of all Outstanding Common  
Units and Subordinated Units equals or exceeds the sum of the Minimum  
Quarterly Distribution (as prorated for the actual length of the period  
from the Closing Date through March 31, 1996) on all of the Outstanding  
Common Units and Subordinated Units with respect to each of the three non-  
overlapping four-Quarter periods immediately preceding such date; [ ]

[ ](ii) the Adjusted Operating Surplus generated during each of the three  
immediately preceding non-overlapping four-Quarter periods equals or  
exceeds the sum of the Minimum Quarterly Distribution (as prorated for the  
actual length of the period from the Closing Date through March 31, 1996)  
on all of the Outstanding Common Units and Subordinated Units, plus related  
distributions on the general partner interest, during such periods; and [ ]

[ ](iii) the Cumulative Common Unit Arrearage on all of the Common Units is

[/]In the event less than all of the Outstanding Subordinated Units shall convert into [/]Common Units pursuant to this Section 4.6 [(a) at a time when there shall be more than one holder of Subordinated Units, then, unless all of the holders of Subordinated Units shall agree to a different allocation, the Subordinated Units that are to be converted into Common Units shall be allocated among the holders of Subordinated Units pro rata in respect of the number of Subordinated Units held by each such holder. [/]within any 365-day period.

[(b) The remaining Subordinated Units shall convert into Common Units[/] (b) The Partnership shall not issue any fractional Senior Subordinated Units or Class B Common Units. Each holder who would otherwise be entitled to a fractional Senior Subordinated Unit or Class B Common Unit shall receive an amount in cash determined by multiplying such fraction by the Current Market Price of a Senior Subordinated Unit or a Class B Common Unit, as the case may be, as of the date three days prior to the date on which Senior Subordinated Units or Class B Common Units, as the case may be, are issued pursuant to this Section 4.6.

(c) Each Senior Subordinated Unit and Junior Subordinated Unit shall convert into one Class B Common Unit on the first day following the Record Date for distributions in respect of the final[/] quarter[/] Quarter of the Subordination Period.

[(c) On the date a Subordination Unit is converted, it shall possess all the rights and obligations of Common Units. Prior to such time, a Subordinated Unit shall have all of the rights and obligations of a Common Unit, except with respect to the right to vote on or approve matters requiring the vote or approval of a percentage of the holders of Outstanding Common Units and the right to participate in allocations of income, gain, loss and deductions and distributions made with respect to Common Units.[/]

Section 4.7 Limited Preemptive Rights.

No Person shall have any preemptive, preferential or other similar right with respect to the issuance of any Partnership Security, whether unissued, held in the treasury or hereafter created, except that the General Partner shall have the right, which it may from time to time assign in whole or in part to any of its Affiliates, to purchase Partnership Securities from the Partnership whenever, and on the same terms that, the Partnership issues Partnership Securities to Persons other than the General Partner and its Affiliates, to the extent necessary to maintain the Percentage Interests of the General Partner and its Affiliates equal to that which existed immediately prior to the issuance of such Partnership Securities.

Section 4.8 Splits and Combinations.

(a) Subject to Sections [4.8(d)[/] 4.9(d), 5.6 and 5.8 (dealing with ----- adjustments of distribution levels), the General Partner may make a pro rata distribution of Partnership Securities to all Record Holders or may effect a subdivision or combination of Partnership Securities so long as, after any such event, each Partner shall have the same Percentage Interest in the Partnership as before such event, and any amounts calculated on a per Unit basis (including the number of Class B Common Units issuable upon conversion of the Senior ----- Subordinated Units and Junior Subordinated Units, the number of Senior ----- Subordinated Units or Class B Common Units issuable pursuant to Section 4.6 and ----- the number of additional Parity Units that may be issued pursuant to Section 4.5 without a Unitholder vote) are proportionately adjusted retroactive to the beginning of the Partnership.

(b) Whenever such a distribution, subdivision or combination of Partnership Securities is declared, the General Partner shall select a Record Date as of which the distribution, subdivision or combination shall be effective and shall send notice thereof at least 20 days prior to such Record Date to each Record

Holder as of the date not less than 10 days prior to the date of such notice. The General Partner also may cause a firm of independent public accountants selected by it to calculate the number of Units to be held by each Record Holder after giving effect to such distribution, subdivision or combination. The General Partner shall be entitled to rely on any certificate provided by such firm as conclusive evidence of the accuracy of such calculation.

(c) Promptly following any such distribution, subdivision or combination, the General Partner may cause Certificates to be issued to the Record Holders of Units as of the applicable Record Date representing the new number of Units held by such Record Holders, or the General Partner may adopt such other procedures as it may deem appropriate to reflect such changes. If any such combination results in a smaller total number of Units Outstanding, the General Partner shall require, as a condition to the delivery to a Record Holder of such new Certificate, the surrender of any Certificate held by such Record Holder immediately prior to such Record Date.

(d) The Partnership shall not issue fractional Units upon any distribution, subdivision or combination of Units. If a distribution, subdivision or combination of Units would result in the issuance of fractional Units but for the provisions this Section 4.8(d), each fractional Unit shall be rounded to the nearest whole Unit (and a 0.5 Unit shall be rounded to the next higher Unit).

#### Section 4.9 Capital Accounts.

(a) The Partnership shall maintain for each Partner (or a beneficial owner of Units Partnership Interests held by a nominee in any case in which the nominee has furnished the identity of such owner to the Partnership in accordance with Section 6031(c) of the Code or any other method acceptable to the General Partner in its sole discretion) owning a Partnership Interest a separate Capital Account with respect to such Partnership Interest in accordance with the rules of Treasury Regulation Section 1.704-1(b)(2)(iv). Such Capital Account shall be increased by (i) the amount of all Capital Contributions made to the Partnership with respect to such Partnership Interest pursuant to this Agreement and (ii) all items of Partnership income and gain (including, without limitation, income and gain exempt from tax) computed in accordance with Section 4.9(b) and allocated with respect to such Partnership Interest pursuant to Section 5.1, and decreased by (x) the amount of cash or Net Agreed Value of all actual and deemed distributions of cash or property made with respect to such Partnership Interest pursuant to this Agreement and (y) all items of Partnership deduction and loss computed in accordance with Section 4.9(b) and allocated with respect to such Partnership Interest pursuant to Section 5.1.

(b) For purposes of computing the amount of any item of income, gain, loss or deduction to be reflected in the Partners' Capital Accounts, the determination, recognition and classification of any such item shall be the same as its determination, recognition and classification for federal income tax purposes (including, without limitation, any method of depreciation, cost recovery or amortization used for that purpose) provided that:

(i) Solely for purposes of this Section 4.9, the Partnership shall be treated as owning directly its proportionate share (as determined by the General Partner based upon the provisions of the Operating Partnership Agreement) of all property owned by the Operating Partnership.

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(ii) All fees and other expenses incurred by the Partnership to promote the sale of (or to sell) a Partnership Interest that can neither be deducted nor amortized under Section 709 of the Code, if any, shall, for purposes of Capital Account maintenance, be treated as an item of deduction at the time such fees and other expenses are incurred and shall be allocated among the Partners pursuant to Section 5.1.

(iii) Except as otherwise provided in Treasury Regulation Section 1.704-1(b)(2)(iv)(m), the computation of all items of income, gain, loss and deduction shall be made without regard to any election under Section 754 of the Code which may be made by the Partnership and, as to those items described in Section 705(a)(1)(B) or 705(a)(2)(B) of the Code, without regard to the fact that such items are not includable in gross income or are neither currently deductible nor capitalized for federal income tax purposes.

(iv) Any income, gain or loss attributable to the taxable disposition of any Partnership property shall be determined as if the adjusted basis of such property as of such date of disposition were equal in amount to the Partnership's Carrying Value with respect to such property as of such date.

(v) In accordance with the requirements of Section 704(b) of the Code, any deductions for depreciation, cost recovery or amortization attributable to any Contributed Property shall be determined as if the adjusted basis of such property on the date it was acquired by the Partnership were equal to the Agreed Value of such property. Upon an adjustment pursuant to Section 4.9(d) to the Carrying Value of any Partnership property subject to depreciation, cost recovery or amortization, any further deductions for such depreciation, cost recovery or amortization attributable to such property shall be determined (A) as if the adjusted basis of such property were equal to the Carrying Value of such property immediately following such adjustment and (B) using a rate of depreciation, cost recovery or amortization derived from the same method and useful life (or, if applicable, the remaining useful life) as is applied for federal income tax purposes; provided, however, that, if the asset has a zero adjusted basis for federal income tax purposes, depreciation, cost recovery or amortization deductions shall be determined using any reasonable method that the General Partner may adopt.

(vi) If the Partnership's adjusted basis in a depreciable or cost recovery property is reduced for federal income tax purposes pursuant to Section 48(q)(1) or 48(q)(3) of the Code, the amount of such reduction shall, solely for purposes hereof, be deemed to be an additional depreciation or cost recovery deduction in the year such property is placed in service and shall be allocated among the Partners pursuant to Section 5.1. Any restoration of such basis pursuant to Section 48(q)(2) of the Code shall, to the extent possible, be allocated in the same manner to the Partners to whom such deemed deduction was allocated.

(c) (i) Except as otherwise provided in Section 4.9(c)(ii)-(v), a transferee of a Partnership Interest shall succeed to a Pro Rata portion of the Capital Account of the transferor relating to the Partnership Interest so transferred;[] provided, however, that, if the transfer causes a termination of the Partnership under Section 708(b)(1)(B) of the Code, the Partnership's properties shall be deemed to have been distributed in liquidation of the Partnership to the Partners (including any transferee of a Partnership Interest that is a party to the transfer causing such termination).[]

(ii) If and when a Senior Subordinated Unit is issued pursuant to Section 14.4 and recontributed by such Partners in reconstitution of the Partnership. Any such deemed distribution shall be treated as[]

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[an actual distribution for purposes of this Section 4.9. In such event, the Carrying Values of the Partnership properties shall be adjusted immediately prior to such deemed distribution] 4.6 with respect to one or more Senior Subordinated Units, the Capital Accounts associated with the existing Senior Subordinated Units shall be reallocated as required to make the Capital Account associated with each Senior Subordinated Unit be the same.  
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(iii) If and when a Class B Common Unit is issued pursuant to Section 4.9(d)(ii) and such Carrying Values shall then constitute the Agreed Values of such properties upon such deemed contribution to the reconstituted Partnership. The Capital Accounts of such reconstituted Partnership shall be maintained in accordance with the principles of this Section 4.9.[] 4.6 with respect to one or more Class B Common Units, the Capital Accounts associated with the existing Class B Common Units shall be reallocated as required to make the Capital Account associated with each Class B Common Unit be the same.  
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[ ](ii) Immediately prior to the conversion of a Subordinated Unit into a Common Unit [ / ] (iv) If and when a Senior Subordinated Unit or a Class B Common Unit is issued pursuant to Section 4.6 [ ] or the sale, exchange or other disposition of a

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Subordinated Unit by a holder thereof, the Capital Account maintained for such Person with respect to its Subordinated Units will (A) first, be allocated to the Subordinated Units to be converted or transferred, as the case may be, in an amount equal to the product of (x) the number of such Subordinated Units to be converted or transferred, as the case may be, and (y) [ / ] with respect to one or more Junior Subordinated Units or General Partner Units, the Capital Accounts associated with the existing Units shall be reallocated to the new Unit until the Capital Account of the new Unit is the same as all other Units of the same class or until the Capital Account associated with the existing Units is reduced to zero.  
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(v) If at the time of conversion of a Junior Subordinated Unit, the Per Unit Capital Amount [ ] for a Common Unit, and (B) second, any remaining balance in such Capital Account will be retained by the transferor, regardless of whether it has retained any Subordinated Units. Following any such allocation, the transferor's Capital Account, if any, maintained with respect to the retained [ / ] attributable to a Junior Subordinated Unit exceeds the existing Per Unit Capital Amount of Senior Subordinated Units, [ ] if any, will have a balance equal to the amount allocated under clause (B) hereinabove, and the transferee's Capital Account established with respect to the transferred Subordinated Units will have a balance equal to the amount allocated under clause (A) hereinabove. [ / ] the amount of excess shall be reallocated to the Capital Accounts attributable to the General Partner Units through contribution of such excess to the General Partner.  
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(d) (i) Consistent with the provisions of Treasury Regulation Section 1.704-1(b)(2)(iv)(f), on an issuance of additional Units for cash or Contributed Property or the conversion of the General Partner's [ ] Partnership [ / ] Combined Interest to Common Units pursuant to Section 13.3(b), the Capital Account of all Partners and the Carrying Value of each Partnership property immediately prior to such issuance shall be adjusted upward or downward to reflect any Unrealized Gain or Unrealized Loss attributable to such Partnership property, as if such Unrealized Gain or Unrealized Loss had been recognized on an actual sale of each such property immediately prior to such issuance and had been allocated to the Partners at such time pursuant to Section 5.1(c). In determining such Unrealized Gain or Unrealized Loss, the aggregate cash amount and fair market value of all Partnership assets (including, without limitation, cash or cash equivalents) immediately prior to the issuance of

additional Units shall be determined by the General Partner using such reasonable method of valuation as it may adopt; provided, however, the General Partner, in arriving at such valuation, must take fully into account the fair market value of the Partnership Interests of all Partners at such time. The General Partner shall allocate such aggregate value among the assets of the Partnership (in such manner as it determines in its sole discretion to be reasonable) to arrive at a fair market value for individual properties.

(ii) In accordance with Treasury Regulation Section 1.704-1(b)(2)(iv)(f), immediately prior to any actual or deemed distribution to a Partner of any Partnership property (other than a distribution of cash that is not in redemption or retirement of a Partnership Interest), the Capital Accounts of



all Partners and the Carrying Value of all Partnership property shall be adjusted upward or downward to reflect any Unrealized Gain or Unrealized Loss attributable to such Partnership property, as if such Unrealized Gain or Unrealized Loss had been recognized in a sale of such property immediately prior to such distribution for an amount equal to its fair market value, and had been allocated to the Partners, at such time, pursuant to Section 5.1(c). Any Unrealized Gain or Unrealized Loss attributable to such property shall be allocated in the same manner as Net Termination Gain or Net Termination Loss pursuant to Section 5.1(c); provided, however, that, in making any such allocation, Net Termination Gain or Net Termination Loss actually realized shall be allocated first. In determining such Unrealized Gain or Unrealized Loss the aggregate cash amount and fair market value of all Partnership assets (including, without limitation, cash or cash equivalents) immediately prior to a distribution shall (A) in the case of an actual distribution which is not made pursuant to Section 13.3 or 13.4 or [in the case of a deemed distribution occurring as a result of a termination of the Partnership pursuant to Section 708 of the Code, be determined and allocated in the same manner as that; provided, however, in Section 4.9(d)(i) or [ ] (B) in the case of a liquidating distribution pursuant to Section 14.4, be determined and allocated by the Liquidator using such reasonable method of valuation as it may adopt.

#### Section 4.10 Interest and Withdrawal.

No interest shall be paid by the Partnership on Capital Contributions, and no Partner or Assignee shall be entitled to withdraw any part of its Capital Contributions or otherwise to receive any distribution from the Partnership, except as provided in Section 4.1 and Articles V, VII, XIII and XIV.

### ARTICLE V

#### ALLOCATIONS AND DISTRIBUTIONS

#### Section 5.1 Allocations for Capital Account Purposes.

For purposes of maintaining the Capital Accounts and in determining the rights of the Partners among themselves, the Partnership's items of income, gain, loss and deduction (computed in accordance with Section 4.9(b)) shall be allocated among the Partners in each taxable year (or portion thereof) as provided hereinbelow.

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(a) Net Income. After giving effect to the special allocations set forth in Section 5.1(d), Net Income for each taxable period and all items of income, gain, loss and deduction taken into account in computing Net Income for such taxable period shall be allocated as follows:

(i) First, 100% to the General Partner until the aggregate Net Income allocated to the General Partner pursuant to this Section 5.1(a)(i) for the current taxable year and all previous taxable years is equal to the aggregate Net Losses allocated to the General Partner pursuant to Section 5.1(b)(iii) for all previous taxable years;

(ii) Second, 100% to the General Partner and the Limited Partners, in accordance with their respective Percentage Interests, until the aggregate Net Income allocated to such Partners pursuant to this Section 5.1(a)(ii) for the current taxable year and all previous taxable years is equal to the aggregate Net Losses allocated to such Partners pursuant to Section 5.1(b)(ii) for all previous taxable years; and

(iii) Third, the balance, if any, 100% to the General Partner and the Limited Partners in accordance with their respective Percentage Interests.

(b) Net Losses. After giving effect to the special allocations set forth in Section 5.1(d), Net Losses for each taxable period and all items of income, gain, loss and deduction taken into account in computing Net Losses for such taxable period shall be allocated as follows:

(i) First, 100% to the General Partner and the Limited Partners, in accordance with their respective Percentage Interests, until the aggregate Net Losses allocated pursuant to this Section 5.1(b)(i) for the current

taxable year and all previous taxable years is equal to the aggregate Net Income allocated to such Partners pursuant to Section 5.1(a)(iii) for all previous taxable years;

(ii) Second, 100% to the General Partner and the Limited Partners in accordance with their respective Percentage Interests; provided that Net Losses shall not be allocated pursuant to this Section 5.1(b)(ii) to the extent that such allocation would cause any Limited Partner to have a deficit balance in its Adjusted Capital Account at the end of such taxable year (or increase any existing deficit balance in its Adjusted Capital Account); and

(iii) Third, the balance, if any, 100% to the General Partner.

(c) Net Termination Gains and Losses. After giving effect to the special allocations set forth in Section 5.1(d), all items of income gain, loss and deduction taken into account in computing Net Termination Gain or Net Termination Loss for such taxable period shall be allocated in the same manner as such Net Termination Gain or Net Termination Loss is allocated hereunder. All allocations under this Section 5.1(c) shall be made after Capital Account balances have been adjusted by all other allocations provided under this Section 5.1 and after all distributions of Available Cash provided under Section 5.4 have been made with respect to the taxable period ending on the date of the Partnership's liquidation pursuant to Section 14.4.

(i) If a Net Termination Gain is recognized (or deemed recognized pursuant to Section 4.9(d)) from Termination Capital Transactions, such Net Termination Gain shall be allocated among the General Partner and the Limited Partners in the following manner (and the Capital Accounts of the Partners shall be increased by the amount so allocated in each of the following subclauses, in the order listed, before an allocation is made pursuant to the next succeeding subclause):

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[ ](A)[/](1) First, to each Partner having a deficit balance in its Capital Account, in the proportion that such deficit balance bears to the total deficit balances in the Capital Accounts of all Partners, until each such Partner has been allocated Net Termination Gain equal to any such deficit balance in its Capital Account;

[ ](B)[/](2) Second, [ ]99%[/] 100% to all [ ]Limited[/] Partners holding Common Units, in accordance with their relative Percentage Interests, [ ]and 1% to the General Partner[/] until the Capital Account in respect of each Common Unit then Outstanding is equal to the sum of (1) its Unrecovered Initial Unit Price plus (2) the Minimum Quarterly Distribution for the Quarter during which such Net Termination Gain is recognized, reduced by any distribution pursuant to Sections 5.4(a)(i) or (b)(i) with respect to such Common Unit for such Quarter (the amount determined pursuant to this clause (2) is hereinafter defined as the "Unpaid MQD") plus (3) any then existing Cumulative Common Unit Arrearage [ ]with respect to a Common Unit sold by the Underwriters on the Closing Date;[/];

(C)(3) Third, if such Termination Capital Transaction occurs (or is deemed to occur) prior to the expiration of the Subordination Period, [ ]99% to the Limited Partners holding Subordinated Units, in the proportion that the total number of Subordinated Units held by each such Limited Partner bears to the total number of Subordinated Units then Outstanding, and 1% to the General Partner, in the amount which will increase [ ] 100% to all Partners holding Senior Subordinated Units, in

accordance with their relative Percentage Interests, until the Capital Account [ ]of each such Limited Partner maintained with respect to such Subordinated Units to that amount which equal [ ]s in respect of each Senior

Subordinated Unit then Outstanding is equal to the sum of (1) the

Unrecovered [ ]Subordinated Unit Capital attributable to such Subordinated Units, determined for the taxable year (or portion thereof) to which this allocation of gain relate [ ]s Initial Unit Price plus (2) the Minimum

Quarterly Distribution for the Quarter during which such Net Termination  
Gain is recognized, reduced by any distribution pursuant to Section  
5.4(a) (iii) with respect to such Senior Subordinated Unit for such Quarter;

(4) Fourth, if such Termination Capital Transaction occurs (or is  
deemed to occur) prior to the expiration of the Subordination Period,  
100 % to all Partners holding Junior Subordinated Units and General  
Partner Units, Pro Rata, in accordance with their relative Percentage  
Interests, until the Capital Account in respect of each Junior  
Subordinated Unit then Outstanding is equal to the sum of (1) the  
Unrecovered Initial Unit Price plus (2) the Minimum Quarterly  
Distribution for the Quarter during which such Net Termination Gain is  
recognized, reduced by any distribution pursuant to Section 5.4(a) (iv)  
with respect to such Junior Subordinated Unit for such Quarter;

(D) Fourth, 99%  (5) Fifth, 100% to all  Limited  Partners, in  
accordance with their relative Percentage Interests,  and 1% to the  
General Partner  until the Capital Account in respect of each Common  
Unit then Outstanding (if such Termination Capital Transaction occurs,  
or is deemed to occur, prior to the expiration of the Subordination  
Period) or Class A Common Unit then Outstanding (if such Termination  
Capital Transaction occurs, or is deemed to occur, after the expiration  
of the Subordination Period) is equal to the sum of (1) its Unrecovered  
Initial Unit Price, plus (2) the Unpaid MQD, if any, for such Common  
Unit with respect to the Quarter during which such Net Termination Gain  
is recognized,

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plus (3) any then existing Cumulative Common Unit Arrearage  with  
respect to a Common Unit sold by the Underwriters on the Closing Date ,  
plus (4) the excess of (aa) the First Target Distribution less the  
Minimum Quarterly Distribution for each Quarter of the Partnership's  
existence over (bb) the amount of any distributions of Operating  
Surplus that was distributed pursuant to Sections 5.4(a) (v) or 5.4  
(b) (i) (the sum of (1) plus (2) plus (3) plus (4) is hereinafter  
defined as the "First Liquidation Target Amount");

(E) Fifth, 85.8673%  (6) Sixth, 86.7% to all  Limited  Partners, in  
accordance with their relative Percentage Interests, and  14.1327% to  
the General Partner  13.3% to the Senior Subordinated Units, Junior  
Subordinated Units and General Partner Units, Pro Rata (if such  
Termination Capital Transaction occurs, or is deemed to occur, prior to  
the expiration of the Subordination Period), or 13.3% to the Class B  
Common Units and General Partner Units, Pro Rata (if such Termination  
Capital Transaction occurs, or is deemed to occur, after the expiration

of the Subordination Period), until the Capital Account in respect of  
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each Common Unit then Outstanding (if such Termination Capital  
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Transaction occurs, or is deemed to occur, prior to the expiration of  
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the Subordination Period) or Class A Common Unit then Outstanding (if  
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such Termination Capital Transaction occurs, or is deemed to occur,  
-----  
after the expiration of the Subordination Period) is equal to the sum  
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of (1) the First Liquidation Target Amount, plus (2) the excess of (aa)  
the Second Target Distribution less the First Target Distribution for  
-----  
each Quarter of the Partnership's existence over (bb) the amount of any  
distributions of Operating Surplus that was distributed pursuant to  
Section [ ]5.4(a)(v) or 5.4(b)(iv) [ / ] 5.4(a)(vi) or 5.4(b)(iii) (the sum of  
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(1) plus (2) is hereinafter defined as the "Second Liquidation Target  
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Amount");  
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[ ](F) Sixth, 75.7653% [ / ] (7) Seventh, 76.5% to all [ ]Limited [ / ] Partners,  
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in accordance with their relative Percentage Interests, and [ ]24.2347% to  
the General Partner [ / ] 23.5% to the Senior Subordinated Units, Junior  
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Subordinated Units and General Partner Units, Pro Rata (if such Termination  
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Capital Transaction occurs, or is deemed to occur, prior to the expiration  
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of the Subordination Period), or 23.5% to the Class B Common Units and  
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General Partner Units, Pro Rata (if such Termination Capital Transaction  
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occurs, or is deemed to occur, after the expiration of the Subordination  
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Period), until the Capital Account in respect of each Common Unit then  
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Outstanding (if such Termination Capital Transaction occurs, or is deemed to  
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occur, prior to the expiration of the Subordination Period) or Class A  
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Common Unit then Outstanding (if such Termination Capital Transaction  
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occurs, or is deemed to occur, after the expiration of the Subordination  
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Period) is equal to the sum of (1) the Second Liquidation Target Amount,  
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plus (2) the excess of (aa) the Third Target Distribution less the Second  
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Target Distribution for each Quarter of the Partnership's existence over  
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(bb) the amount of any distributions of Operating Surplus that was  
distributed pursuant to Section 5.4(a)(vii) or [ ]5.4(b)(v); [ / ] 5.4(b)(iv);  
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and  
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[ ](G) [ / ] (8) Finally, any remaining amount [ ]50.5102% [ / ] 51% to all  
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[ ]Limited [ / ] Partners, in accordance with their relative Percentage  
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Interests, and [ ]49.4898% to the [ / ] 49% to the Senior Subordinated Units,  
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Junior Subordinated Units and General Partner Units, Pro Rata (if such  
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Termination Capital Transaction occurs, or is deemed to occur, prior to the  
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expiration of the Subordination Period), or 49% to the Class B Common Units  
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and General Partner Units, Pro Rata (if such Termination Capital Transaction  
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occurs, or is deemed to occur, after the expiration of the Subordination  
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Period).  
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(ii) If a Net Termination Loss is recognized (or deemed recognized pursuant to Section 4.9(d)) from Termination Capital Transactions, such Net Termination Loss shall be allocated to the Partners in the following manner:

(A) First, 100% to the General Partner to the extent the General Partner has contributed additional capital to the Partnership pursuant to its Additional Capital Contribution Obligation reduced by the amount such Additional Capital Contribution Obligation has reduced the General Partner's obligation pursuant to Section 4.2(c);

(B) Second,  (1) First, if such Termination Capital Transaction occurs  
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(or is deemed to occur) prior to the conversion of the last outstanding Junior Subordinated Unit,  99%  100% to the Partners holding  
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 Subordinated Units, in proportion that the total number of Subordinated Units held by each such Limited Partner bears to the total number of Subordinated Units then Outstanding, and 1% to the General Partner,  Junior Subordinated Units and General Partner Units, Pro Rata, until the  
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Capital Account in respect of each Junior Subordinated Unit  then  
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Outstanding  has been reduced to zero;

(2) Second, if such Termination Capital Transaction occurs (or is  
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deemed to occur) prior to the conversion of the last outstanding Senior Subordinated Unit, 100% to the Partners holding Senior Subordinated  
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Units, in accordance with their relative Percentage Interests, until  
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the Capital Account in respect of each Senior Subordinated Unit then  
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Outstanding has been reduced to zero;  
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(3) Third, 100% to all Partners holding Common Units, the Capital  
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Account balances attributable to which are in excess of the Capital  
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Account balances attributable to the remainder of the Common Units then  
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Outstanding, in accordance with their relative Percentage Interests,  
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until the Capital Accounts in respect of each Common Unit then  
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Outstanding are equal;  
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(4) Fourth, 100% to all  (C) Third, 99% to all Limited  Partners  
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holding Common Units, in accordance with their relative Percentage  
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Interests, and 1% to the General Partner, until the Capital Account in  
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respect of each Common Unit then Outstanding has been reduced to zero;  
and

(D)  (5) Fifth, the balance, if any, 100% to the General Partner.  
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(d) Special Allocations. Notwithstanding any other provision of this Section 5.1, the following special allocations shall be made for such taxable period:

(i) Partnership Minimum Gain Chargeback. Notwithstanding any other provision of this Section 5.1, if there is a net decrease in Partnership

Minimum Gain during any Partnership taxable period, each Partner shall be allocated items of Partnership income and gain for such period (and, if necessary, subsequent periods) in the manner and amounts provided in Treasury Regulation Sections 1.704-2(f) (6), 1.704-2(g) (2) and 1.704-2(j) (2) (i), or any successor provision. For purposes of this Section 5.1(d), each Partner's Adjusted Capital Account balance shall be determined, and the allocation of income or gain required hereunder shall be effected, prior to the application of any other allocations pursuant to this Section 5.1(d) with respect to such taxable period (other than an allocation pursuant to Sections 5.1(d) (vi) and 5.1(d) (vii)). This Section 5.1(d) (i) is intended to comply with the Partnership Minimum Gain chargeback requirement in Treasury Regulation Section 1.704-2(f) and shall be interpreted consistently therewith.

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(ii) Chargeback of Partner Nonrecourse Debt Minimum Gain. Notwithstanding the other provisions of this Section 5.1 (other than Section 5.1(d) (i)), except as provided in Treasury Regulation Section 1.704-2(i) (4), if there is a net decrease in Partner Nonrecourse Debt Minimum Gain during any Partnership taxable period, any Partner with a share of Partner Nonrecourse Debt Minimum Gain at the beginning of such taxable period shall be allocated items of Partnership income and gain for such period (and, if necessary, subsequent periods) in the manner and amounts provided in Treasury Regulation Sections 1.704-2(i) (4) and 1.704-2(j) (2) (ii), or any successor provisions. For purposes of this Section 5.1(d), each Partner's Adjusted Capital Account balance shall be determined, and the allocation of income or gain required hereunder shall be effected, prior to the application of any other allocations pursuant to this Section 5.1(d), other than Section 5.1(d) (i) and other than an allocation pursuant to Sections 5.1(d) (vi) and 5.1(d) (vii), with respect to such taxable period. This Section 5.1(d) (ii) is intended to comply with the chargeback of items of income and gain requirement in Treasury Regulation Section 1.704-2(i) (4) and shall be interpreted consistently therewith.

(iii) Priority Allocations. If the amount of cash or the Net Agreed Value of any property distributed (except cash or property distributed pursuant to Section 14.4) to any Limited Partner with respect to a taxable year is greater (on a per Unit basis) than the amount of cash or the Net Agreed Value of property distributed to the other Limited Partners (on a per Unit basis), then (1) each Limited Partner receiving such greater cash or property distribution shall be allocated gross income in an amount equal to the product of (aa) the amount by which the distribution (on a per Unit basis) to such Limited Partner exceeds the distribution (on a per Unit basis) to the Limited Partners receiving the smallest distribution and (bb) the number of Units owned by the Limited Partner receiving the greater distribution.

(iv) Qualified Income Offset. In the event any Partner unexpectedly receives any adjustments, allocations or distributions described in Treasury Regulation Sections 1.704-1(b) (2) (ii) (d) (4), 1.704-1(b) (2) (ii) (d) (5), or 1.704-1(b) (2) (ii) (d) (6), items of Partnership income and gain shall be specifically allocated to such Partner in an amount and manner sufficient to eliminate, to the extent required by the Treasury Regulations promulgated under Section 704(b) of the Code, the deficit balance, if any, in its Adjusted Capital Account created by such adjustments, allocations or distributions as quickly as possible unless such deficit balance is otherwise eliminated pursuant to Section 5.1(d) (i) or (ii).

(v) Gross Income Allocations. In the event any Partner has a deficit balance in its Capital Account at the end of any Partnership taxable period in excess of the sum of (A) the amount such Partner is required to restore pursuant to the provisions of this Agreement and (B) the amount such Partner is deemed obligated to restore pursuant to Treasury Regulation Sections 1.704-2(g) and 1.704-2(i) (5), such Partner shall be specially allocated items of Partnership gross income and gain in the amount of such excess as quickly as possible; provided, that an allocation pursuant to this Section 5.1(d) (v) shall be made only if and to the extent that such Partner would have a deficit balance in its Capital Account as adjusted after all other allocations provided for in this Section 5.1 have been tentatively made as if this Section 5.1(d) (v) were not in this Agreement.

(vi) Nonrecourse Deductions. Nonrecourse Deductions for any taxable

period shall be allocated to the Partners in accordance with their respective Percentage Interests. If the General

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Partner determines in its good faith discretion that the Partnership's Nonrecourse Deductions must be allocated in a different ratio to satisfy the safe harbor requirements of the Treasury Regulations promulgated under Section 704(b) of the Code, the General Partner is authorized, upon notice to the Limited Partners, to revise the prescribed ratio to the numerically closest ratio that satisfies such requirements.

(vii) Partner Nonrecourse Deductions. Partner Nonrecourse Deductions for any taxable period shall be allocated 100% to the Partner that bears the Economic Risk of Loss with respect to the Partner Nonrecourse Debt to which such Partner Nonrecourse Deductions are attributable in accordance with Treasury Regulation Section 1.704-2(i). If more than one Partner bears the Economic Risk of Loss with respect to a Partner Nonrecourse Debt, such Partner Nonrecourse Deductions attributable thereto shall be allocated between or among such Partners in accordance with the ratios in which they share such Economic Risk of Loss.

(viii) Nonrecourse Liabilities. For purposes of Treasury Regulation Section 1.752-3(a)(3), the Partners agree that Nonrecourse Liabilities of the Partnership in excess of the sum of (A) the amount of Partnership Minimum Gain and (B) the total amount of Nonrecourse Built-in Gain shall be allocated among the Partners in accordance with their respective Percentage Interests.

(ix) Code Section 754 Adjustments. To the extent an adjustment to the adjusted tax basis of any Partnership asset pursuant to Section 734(b) or 743(b) of the Code is required, pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(m), to be taken into account in determining Capital Accounts, the amount of such adjustment to the Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis), and such item of gain or loss shall be specially allocated to the Partners in a manner consistent with the manner in which their Capital Accounts are required to be adjusted pursuant to such Section of the Treasury Regulations.

(x) Economic Uniformity. [At the election of the General Partner with respect to any taxable period ending upon, or after, the termination of the Subordination Period, all or a portion of the remaining items of Partnership gross income or gain for such taxable period, if any, shall be allocated 100% to each Partner holding Subordinated Units in the proportion of the number of Subordinated Units held by such Partner to the total number of Subordinated Units then Outstanding, until each such Partner has been allocated an amount of gross income or gain which increases the Capital Account maintained with respect to such Subordinated Units to an amount equal to the product of (A) the number of Subordinated Units held by such Partner and (B) the Per Unit Capital Amount for a Common Unit. The purpose of this allocation is to establish uniformity between the Capital Accounts underlying Subordinated Units and the Capital Accounts underlying Common Units held by Persons other than the General Partner and its Affiliates immediately prior to the conversion of such Subordinated Units into Common Units. This allocation method for establishing such economic uniformity will only be available to the General Partner if the method for allocating [ Upon the issuance of any Unit pursuant to Section 4.6 or upon the conversion of any Unit into another class after application of Section 4.9(c)(iii), gross income shall be allocated to the holder of such Unit until the Capital Account of such Unit is the same as the Capital Account [ maintained with respect to the Subordinated Units between the transferred and retained Subordinated Units pursuant to Section 4.9(c)(ii) [ ]

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[ does not otherwise provide such economic uniformity to the Subordinated Units. [ ] per Unit of all other Units of the same class.

(xi) Curative Allocation.

[ (A) [ ] (1) Notwithstanding any other provision of this Section 5.1, other than the Required Allocations, the Required Allocations shall be taken

into account in making the Agreed Allocations so that, to the extent possible, the net amount of items of income, gain, loss and deduction allocated to each Partner pursuant to the Required Allocations and the Agreed Allocations, together, shall be equal to the net amount of such items that would have been allocated to each such Partner under the Agreed Allocations had the Required Allocations and the related Curative Allocation not otherwise been provided in this Section 5.1. Notwithstanding the preceding sentence, Required Allocations relating to (1) Nonrecourse Deductions shall not be taken into account except to the extent that there has been a decrease in Partnership Minimum Gain and (2) Partner Nonrecourse Deductions shall not be taken into account except to the extent that there has been a decrease in Partner Nonrecourse Debt Minimum Gain. Allocations pursuant to this Section 5.1(d)(xi) [(A) /] (1) shall only be made with respect to Required Allocations to the extent the General Partner reasonably determines that such allocations will otherwise be inconsistent with the economic agreement among the Partners. Further, allocations pursuant to this Section 5.1(d)(xi) [(A) /] (1) shall be deferred with respect to allocations pursuant to clauses (1) and (2) hereof to the extent the General Partner reasonably determines that such allocations are likely to be offset by subsequent Required Allocations.

[(B) /] (2) The General Partner shall have reasonable discretion, with respect to each taxable period, to (1) apply the provisions of Section 5.1(d)(xi) [(A) /] (1) in whatever order is most likely to minimize the economic distortions that might otherwise result from the Required Allocations, and (2) divide all allocations pursuant to Section 5.1(d)(xi) [(A) /] (1) among the Partners in a manner that is likely to minimize such economic distortions.

(xii) Corrective Allocations. In the event of any allocation of Additional Book Basis Derivative Items or any Book-Down Event, the following rules shall apply:

[(A) /] (1) In the case of any allocation of Additional Book Basis Derivative Items (other than an allocation of Unrealized Gain or Unrealized Loss under Section 4.9(d) hereof), the General Partner shall allocate additional items of gross income and gain to the Limited Partners or additional items of deduction and loss to the General Partner to the extent that the Additional Book Basis Derivative Items allocated to the Limited Partners exceeds their Share of those Additional Book Basis Derivative Items. For this purpose, the Limited Partners shall be treated as being allocated Additional Book Basis Derivative Items to the extent that such Additional Book Basis Derivative Items have reduced the amount of income that would otherwise have been allocated to the Limited Partners under the Partnership Agreement (e.g., Additional Book Basis Derivative Items taken into account in computing cost of goods sold would reduce the amount of book income otherwise available for allocation among the Partners). Any allocation made pursuant to this Section 5.1(d)(xii) [(A) /] (1) shall be made after all of the other Agreed Allocations have been made as if this Section 5.1(d)(xii) were not in the Partnership Agreement and, to the extent

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necessary, shall require the reallocation of items that have been allocated pursuant to such other Agreed Allocations.

(B) (2) In the case of any negative adjustments to the Capital Accounts of the Partners resulting from a Book-Down Event, such negative adjustment (1) shall first be allocated between the General Partner and the Limited Partners in proportion to and to the extent of their Remaining Net Positive Adjustments and (2) any remaining negative adjustment shall be allocated pursuant to Section 5.1(c) hereof. The aggregate amount so allocated to the Limited Partners in respect of each class or series of Units shall be allocated among them ratably on a per Unit basis.

(C) (3) In making the allocations required under this Section 5.1(d)(xii), the General Partner, in its sole discretion, may apply whatever conventions or other methodology it deems reasonable to satisfy the purpose of this Section 5.1(d)(xii).



(xiii) [ ]First Year Allocation. Net Income or Net Loss[ /] Depreciation. Depreciation deductions of the Partnership for [ ]the period beginning on the Closing Date and ending on the last day of the taxable year of the Partnership that includes the Closing Date shall be allocated 100% to the General Partner. For the immediately succeeding taxable year of the Partnership, items of income or gain (if the allocation in the prior year was an allocation of Net Income) or items of loss and deduction (if the allocation in the prior year was an allocation of Net Loss) shall be allocated 100% to the Limited Partners, [ /]each period shall be allocated among the Partners in accordance with their[ ] Percentage Interests, in an amount equal to 99% of the Net Income or Net Loss allocated to the General Partner in the prior taxable year. [ /]Relative Capital Account balances as -----  
they existed immediately after the most recent book adjustments pursuant to -----  
Section 4.9(d) of this Agreement that occurred prior to such period and -----  
without regard to allocations made after such adjustment.  
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Section 5.2 Allocations for Tax Purposes.

(a) Except as otherwise provided herein, for federal income tax purposes, each item of income, gain, loss and deduction shall be allocated among the Partners in the same manner as its correlative item of "book" income, gain, loss or deduction is allocated pursuant to Section 5.1.

(b) In an attempt to eliminate Book-Tax Disparities attributable to a Contributed Property or Adjusted Property, items of income, gain, loss, depreciation, amortization and cost recovery deductions shall be allocated for federal income tax purposes among the Partners as follows:

(i) (A) (1) In the case of a Contributed Property, such items attributable thereto shall be allocated among the Partners in the manner provided under Section 704(c) of the Code that takes into account the variation between the Agreed Value of such property and its adjusted basis at the time of contribution; and (B) (2) any item of Residual Gain or Residual Loss attributable to a Contributed Property shall be allocated among the Partners in the same manner as its correlative item of "book" gain or loss is allocated pursuant to Section 5.1.

(ii) (A) (1) In the case of an Adjusted Property, such items shall (1) first, be allocated among the Partners in a manner consistent with the principles of Section 704(c) of the Code to take into account the Unrealized Gain or Unrealized Loss attributable to such property and the allocations thereof pursuant to Section 4.9(d) (i) or (ii), and (2) second, in the event such

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[ ]property was originally a Contributed Property, be allocated among the Partners in a manner[ /] consistent with Section 5.2(b) (i) [ ] (A) (1); and (B) (2) any item of[ /] Residual Gain or Residual Loss attributable to an Adjusted Property shall be allocated among the Partners in the same manner as its correlative item of "book" gain or loss is allocated pursuant to Section 5.1.

(iii) The General Partner shall apply the principles of Treasury Regulation Section 1.704-3(d) to eliminate Book-Tax Disparities.

(c) For the proper administration of the Partnership and for the preservation of uniformity of the Units (or any class or classes thereof), the General Partner shall have sole discretion to (i) adopt such conventions as it deems appropriate in determining the amount of depreciation, amortization and cost recovery deductions; (ii) make special allocations for federal income tax purposes of income (including, without limitation, gross income) or deductions; and (iii) amend the provisions of this Agreement as appropriate (x) to reflect the proposal or promulgation of Treasury Regulations under Section 704(b) or Section 704(c) of the Code or (y) otherwise to preserve or achieve uniformity of the Units (or any class or classes thereof). The General Partner may adopt such conventions, make such allocations and make such amendments to this Agreement as provided in this Section 5.2(c) only if such conventions, allocations or amendments would not have a material adverse effect on the Partners, the holders of any class or classes of Units issued and Outstanding

or the Partnership, and if such allocations are consistent with the principles of Section 704 of the Code.

(d) The General Partner in its sole discretion may determine to depreciate or amortize the portion of an adjustment under Section 743(b) of the Code attributable to unrealized appreciation in any Adjusted Property (to the extent of the unamortized Book-Tax Disparity) using a predetermined rate derived from the depreciation or amortization method and useful life applied to the Partnership's common basis of such property, despite the inconsistency of such approach with Treasury Regulation Section 1.167(c)-1(a)(6) and Proposed

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Treasury Regulation Section 1.197-2(g)(3) or any successor regulations thereto.  
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If the General Partner determines that such reporting position cannot reasonably be taken, the General Partner may adopt depreciation and amortization conventions under which all purchasers acquiring Units in the same month would receive depreciation and amortization deductions, based upon the same applicable rate as if they had purchased a direct interest in the Partnership's property. If the General Partner chooses not to utilize such aggregate method, the General Partner may use any other reasonable depreciation and amortization conventions to preserve the uniformity of the intrinsic tax characteristics of any Units that would not have a material adverse effect on the Limited Partners or the Record Holders of any class or classes of Units.

(e) Any gain allocated to the Partners upon the sale or other taxable disposition of any Partnership asset shall, to the extent possible, after taking into account other required allocations of gain pursuant to this Section 5.2, be characterized as Recapture Income in the same proportions and to the same extent as such Partners (or their predecessors in interest) have been allocated any deductions directly or indirectly giving rise to the treatment of such gains as Recapture Income.

(f) All items of income, gain, loss, deduction and credit recognized by the Partnership for federal income tax purposes and allocated to the Partners in accordance with the provisions hereof shall be determined without regard to any election under Section 754 of the Code which may be made by the Partnership; provided, however, that such allocations, once made, shall be adjusted as

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necessary or appropriate to take into account those adjustments permitted or required by Sections 734 and 743 of the Code.

(g) Each item of Partnership income, gain, loss and deduction attributable to a transferred Partnership Interest [ ] of the General Partner or to transferred Units [ ] shall, for federal income tax purposes, be determined on an annual basis and prorated on a monthly basis and shall be allocated to the Partners as of the opening of the New York Stock Exchange on the first Business Day of each month; provided, however, that (i) if the [ ] Underwriter's [ ] Overallotment Option is not exercised, such items for the period beginning on the Closing Date and ending on the last day of the month in which the [ ] Closing Date [ ] Effective Time occurs shall be allocated to Partners as of the opening of the New York Stock Exchange on the first Business Day of the next succeeding month or (ii) if the [ ] Underwriters' [ ] Overallotment Option is exercised, such items for the period beginning on the Closing Date and ending on the last day of the month in which the [ ] Second Delivery Date (as defined in the Underwriting Agreement) [ ] closing of the Overallotment Option occurs shall be allocated to the Partners as

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of the opening of the New York Stock Exchange on the first Business Day of the next succeeding month; and; provided, further, that gain or loss on a sale or other disposition of any assets of the Partnership other than in the ordinary course of business shall be allocated to the Partners as of the opening of the New York Stock Exchange on the first Business Day of the month in which such gain or loss is recognized for federal income tax purposes. The General Partner may revise, alter or otherwise modify such methods of allocation as it determines necessary, to the extent permitted or required by Section 706 of the Code and the regulations or rulings promulgated thereunder.

(h) Allocations that would otherwise be made to a Limited Partner under the provisions of this Article V shall instead be made to the beneficial owner of Units held by a nominee in any case in which the nominee has furnished the identity of such owner to the Partnership in accordance with Section 6031(c) of the Code or any other method acceptable to the General Partner in its sole discretion.

Section 5.3 Requirement and Characterization of Distributions.

(a) [Within/] Subject to (b), (c) and (d) below, within 45 days following the end of (i) the period beginning on the Initial Closing Date and ending on March 31, 1996 and (ii) each Quarter commencing with the Quarter beginning on April 1, 1996 an amount equal to 100% of Available Cash with respect to such period or Quarter shall be distributed in accordance with this Article V by the Partnership to the Partners, as of the Record Date selected by the General Partner in its reasonable discretion; provided, however, that the Partnership

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shall not make any distributions of Available Cash to the holders of Senior  
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Subordinated Units, Junior Subordinated Units and General Partner Units with  
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respect to any Quarter during the Partnership's fiscal year 1999. All amounts  
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of Available Cash distributed by the Partnership on any date from any source shall be deemed to be Operating Surplus until the sum of all amounts of Available Cash theretofore distributed by the Partnership to Partners pursuant to Section 5.4 equals the Operating Surplus from the Initial Closing Date through the close of the immediately preceding Quarter. Any remaining amounts of Available Cash distributed by the Partnership on such date shall, except as otherwise provided in Section 5.5, be deemed to be from Capital Surplus.

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(b) Beginning with the distribution for the Quarter ending on December 31, 1999, no distributions will be made on the Senior Subordinated Units, Junior Subordinated Units and General Partner Units, unless the aggregate amount of distributions on all Units with respect to all Quarters, beginning with the Quarter ending on December 31, 1999 shall be equal to or less than the total

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Operating Surplus generated by the Partnership since October 1, 1999 (which does not include that portion of Operating Surplus included in clause (a)(i) of the definition of Operating Surplus).

(c) Notwithstanding the definitions of Available Cash and Operating Surplus contained herein, [(i) cash receipts of the Partnership from the capital contributions pursuant to the Additional Capital Contribution Obligation shall be deemed to be received, for purposes of determining Available Cash from Operating Surplus, during the quarter in respect of which such capital contributions are made, even if such capital contributions are received by the Partnership after the last day of such quarter; and (ii)[/] disbursements (including, without limitation, contributions to the Operating Partnership or disbursements on behalf of the Operating Partnership) made or cash reserves established, increased or reduced (including, without limitation, cash reserves established, increased or reduced by the Operating Partnership) after the end of any Quarter but on or before the date on which the Partnership makes its distribution of Available Cash in respect of such Quarter pursuant to Section 5.3(a) shall be deemed to have been made, established, increased or reduced for purposes of determining Available Cash and Operating Surplus, within such Quarter if the General Partner so determines. Notwithstanding the foregoing, in the event of the dissolution and liquidation of the Partnership, all proceeds of such liquidation shall be applied and distributed in accordance with, and subject to the terms and conditions of, Section 14.4.

(d) Nothing in this Section 5.3 prohibits the holders of the Senior Subordinated Units, Junior Subordinated Units or General Partner Units from receiving distributions from Capital Surplus in a partial liquidation during the Subordination Period.

Section 5.4 Distributions of Operating Surplus.

(a) During Subordination Period. Available Cash with respect to any Quarter within the Subordination Period that is deemed to be Operating Surplus pursuant to the provisions of Section 5.3 or 5.5 shall, subject to Section 5.3 and  
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subject to Section 17-607 of the Delaware Act, be distributed as follows,

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except as otherwise required by Section 4.4(b) in respect of additional  
Partnership Securities issued pursuant thereto:

(i) First, [ ]99% to the Limited Partners holding Common Units, in  
accordance with their relative Percentage Interests, and 1% to the General  
Partner [ ] 100% to the Common Units, Pro Rata, until there has been

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distributed in respect of each Common Unit then Outstanding an amount equal  
to the Minimum Quarterly Distribution;

(ii) Second, [ ]99% to the Limited Partners holding Common Units, in  
accordance with their relative Percentage Interests, and 1% to the General  
Partner [ ] 100% to the Common Units, Pro Rata, until there has been

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distributed in respect of each Common Unit then Outstanding an amount equal  
to the Cumulative Common Unit Arrearage, if any, existing with respect [ ]to  
such any prior [ ] Quarter;

(iii) Third, [ ]99% [ ] 100% to the [ ] Limited Partners holding [ ] Senior  
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Subordinated Units, [ ] in accordance with their relative Percentage Interests,  
and 1% to the General Partner [ ] Pro Rata, until there has been distributed

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in respect of each Senior Subordinated Unit then Outstanding an amount equal  
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to [ ] the Minimum Quarterly Distribution;

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(iv) Fourth, [ ]99% to all Limited Partners, in accordance with their  
relative Percentage Interests, and 1% to the General Partner [ ] 100% to the

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Junior Subordinated Units and General Partner Units, Pro Rata, until there  
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has been distributed in respect of each Junior Subordinated Unit and

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General Partner Unit then Outstanding an amount equal to the [ ] excess of the  
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First Target Distribution over the [ ] Minimum Quarterly Distribution;

(v) Fifth, [ ]85.8673% to all Limited Partners, in accordance with their  
relative Percentage Interests, and 14.1327% to the General Partner [ ] 100% to

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all Units, Pro Rata, until there has been distributed in respect of each

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Unit then Outstanding an amount equal to the excess of the [ ] Second [ ] First

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Target Distribution over the [ ] First Target [ ] Minimum Quarterly Distribution;

(vi) Sixth, [ ]75.7653% to all Limited Partners, in accordance with their  
relative Percentage Interests, and 24.2347% to the General Partner [ ] (A)  
86.7% to all Units, Pro Rata, and (B) 13.3% to all Senior Subordinated

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Units, Junior Subordinated Units and General Partner Units, Pro Rata, until  
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there has been distributed in respect of each Common Unit then Outstanding

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an amount equal to the excess of the Second Target Distribution over the

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First Target Distribution;

(vii) Seventh, (A) 76.5% to all Units, Pro Rata, and (B) 23.5% to all

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Senior Subordinated Units, Junior Subordinated Units and General Partner

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Units, Pro Rata, until there has been distributed in respect of each Common

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Unit then Outstanding an amount equal to the excess of the Third Target

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Distribution over the Second Target Distribution; and

[ ] (vii) Thereafter, 50.5102% to all Limited Partners, in accordance with their relative Percentage Interests, and 49.4898% to the General Partner; [ ] (viii) Thereafter, (A) 51% to all Units, Pro Rata, and (B) 49% to all Senior Subordinated, Junior Subordinated and General Partner Units, Pro Rata;

provided, however, if the Minimum Quarterly Distribution, the First Target Distribution, the Second Target Distribution and the Third Target Distribution have been reduced to zero pursuant to the second sentence of Section 5.6(a), the distributions of Available Cash that is deemed to be Operating Surplus with respect to any Quarter will be made in accordance with [ ] Section 5.4(a) (vii) [ ] 5.4(a) (viii).

(b) After Subordination Period. Available Cash with respect to any Quarter after the Subordination Period that is deemed to be Operating Surplus pursuant to the provisions of Section 5.3 or 5.5 shall, subject to Section 17-607 of the Delaware Act, be distributed as follows, except as otherwise required by Section 4.4(b) in respect of additional Partnership Securities issued pursuant thereto:

(i) First, [ ] 99% to all Limited Partners, in accordance with their relative Percentage Interests, and 1% to the General Partner [ ] 100% to all Units, Pro Rata, until there has been distributed in respect of each Unit then Outstanding an amount equal to the Minimum Quarterly Distribution;

(ii) Second, [ ] 99% to all Limited Partners, in accordance with their relative Percentage Interests, and 1% to the General Partner [ ] 100% to all Units, Pro Rata, until there has been distributed in respect of each Unit then Outstanding an amount equal to the excess of the First Target Distribution over the Minimum Quarterly Distribution;

(iii) Third, [ ] 85.8673% to all Limited Partners, in accordance with their relative Percentage Interests, and 14.1327% to the General Partner (A) [ ] 86.7% to all Units, Pro Rata, and (B) 13.3% to all Class B Common Units and General Partner Units, Pro Rata, until there has been

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distributed in respect of each Class A Common Unit then Outstanding an amount equal to the excess of the Second Target Distribution over the First Target Distribution;

(iv) Fourth, [ ] 75.7653% to all Limited Partners, in accordance with their relative Percentage Interests, and 24.2347% to the General Partner (A) [ ] 76.5% to all Units, Pro Rata, and (B) 23.5% to all Class B Common Units and General Partner Units, Pro Rata, until there has been distributed in respect of each Class A Common Unit then Outstanding an amount equal to the excess of the Third Target Distribution over the Second Target Distribution; and

(v) Thereafter, [ ] 50.5102% to all Limited Partners, in accordance with their relative Percentage Interests, and 49.4898% to the General Partner; [ ] (A) 51% to all Units, Pro Rata, and (B) 49% to all Class B Common Units and General Partner Units, Pro Rata;

provided, however, if the Minimum Quarterly Distribution, the First Target Distribution, the Second Target Distribution and the Third Target Distribution

have been reduced to zero pursuant to the second sentence of Section 5.6(a), the distributions of Available Cash that is deemed to be Operating Surplus with respect to any Quarter will be made in accordance with Section 5.4(b)(v).

Section 5.5 Distributions of Cash from Capital Surplus.

Available Cash that constitutes Capital Surplus shall, subject to Section 17-  
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607 of the Delaware Act, be distributed, unless the provisions of Section 5.3  
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require otherwise, [ ] 99% to all Limited Partners, in accordance with their  
relative Percentage Interests, and 1% to the General Partner [ / ] 100% to all  
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Units, Pro Rata, until a hypothetical holder of a Common Unit acquired on the  
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Initial Closing Date has received with respect to such Common Unit, during the  
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period since the Initial Closing Date through such date, distributions of  
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Available Cash that are deemed to be Capital Surplus in an aggregate amount  
equal to the Initial Unit Price. Thereafter, all Available Cash shall be  
distributed as if it were Operating Surplus and shall be distributed in  
accordance with Section 5.4.

Section 5.6 Adjustment of Minimum Quarterly Distribution and Target  
Distribution Levels.

(a) The Minimum Quarterly Distribution, First Target Distribution, Second  
Target Distribution and Third Target Distribution shall be proportionately  
adjusted in the event of any distribution, combination or subdivision (whether  
effected by a distribution payable in Units or otherwise) of Units or other  
Partnership Securities in accordance with Section 4.8. In the event of a  
distribution of Available Cash that is deemed to be from Capital Surplus, the  
Minimum Quarterly Distribution, First Target Distribution, Second Target  
Distribution and Third Target Distribution shall be adjusted proportionately  
downward to equal the product obtained by multiplying the otherwise applicable  
Minimum Quarterly Distribution, First Target Distribution, Second Target  
Distribution and Third Target Distribution, as the case may be, by a fraction  
of which the numerator is the Unrecovered Initial Unit Price of the Common  
Units immediately after giving effect to such distribution and of which the  
denominator is the Unrecovered Initial Unit Price of the Common Units  
immediately prior to giving effect to such distribution.

(b) The Minimum Quarterly Distribution, First Target Distribution, Second  
Target Distribution and Third Target Distribution shall also be subject to  
adjustment pursuant to Section 5.8.

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Section 5.7 Special Provisions Relating to the Senior Subordinated Units and  
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Junior Subordinated Units.  
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Except with respect to the right to vote on or approve matters requiring the  
vote or approval of a percentage of the holders of Outstanding Common Units and  
the right to participate in allocations of income, gain, loss and deduction and  
distributions of cash made with respect to Common Units pursuant to this  
Article V, [ ] the holder of a [ / ] and except as provided in Section 6.12 and  
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Section 17.1, the holder of a Senior Subordinated Unit or a Junior Subordinated  
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Unit shall have all of the rights and obligations of a Limited Partner holding  
Common Units hereunder; provided, however, that immediately upon the end of the  
Subordination Period [ ] or upon the conversion of Subordinated Units as;  
provided, however, in Section 4.6, [ / ] the holder of a Senior Subordinated Unit  
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or Junior Subordinated Unit shall possess all of the rights and obligations of a  
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Limited Partner holding Class B Common Units hereunder, including, without  
limitation, the right to vote as a Common Unitholder and the right to  
participate in allocations of income, gain, loss and deduction and distributions  
of cash made with respect to Common Units pursuant to this Article V (but such

converted Senior Subordinated Units and Junior Subordinated Units shall remain  
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subject to the provisions of Sections 4.9(c) (ii) and 5.1(d) (x)).

#### Section 5.8 Entity-Level Taxation.

If legislation is enacted or the interpretation of existing language is modified by the relevant governmental authority which causes the Partnership or the Operating Partnership to be treated as an association taxable as a corporation or otherwise subjects the Partnership or the Operating Partnership to entity-level taxation for federal income tax purposes, the Minimum Quarterly Distribution, First Target Distribution, Second Target Distribution or Third Target Distribution, as the case may be, shall be equal to the product obtained by multiplying (a) the amount thereof by (b) one minus the sum of (i) the highest marginal federal corporate (or other entity, as applicable) income tax rate of the Partnership for the taxable year of the Partnership in which such Quarter occurs (expressed as a percentage) plus (ii) the effective overall state and local income tax rate (expressed as a percentage) applicable to the Partnership for the calendar year next preceding the calendar year in which such Quarter occurs (after taking into account the benefit of any deduction allowable for federal income tax purposes with respect to the payment of state and local income taxes), but only to the extent of the increase in such rates resulting from such legislation or interpretation. Such effective overall state and local income tax rate shall be determined for the taxable year next preceding the first taxable year during which the Partnership or the Operating Partnership is taxable for federal income tax purposes as an association taxable as a corporation or is otherwise subject to entity-level taxation by determining such rate as if the Partnership or the Operating Partnership had been subject to such state and local taxes during such preceding taxable year.

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### ARTICLE VI

#### [ ] Management and Operation of Business [ / ] MANAGEMENT AND OPERATION OF BUSINESS

##### Section 6.1 Management.

(a) The General Partner shall conduct, direct and manage all activities of the Partnership. Except as otherwise expressly provided in this Agreement, all management powers over the business and affairs of the Partnership shall be exclusively vested in the General Partner, and no Limited Partner or Assignee shall have any management power over the business and affairs of the Partnership. In addition to the powers now or hereafter granted a general partner of a limited partnership under applicable law or which are granted to the General Partner under any other provision of this Agreement, the General Partner, subject to Section 6.3, shall have full power and authority to do all things and on such terms as it, in its sole discretion, may deem necessary or appropriate to conduct the business of the Partnership, to exercise all powers set forth in Section 3.2 and to effectuate the purposes set forth in Section 3.1, including the following:

(i) the making of any expenditures, the lending or borrowing of money, the assumption or guarantee of, or other contracting for, indebtedness and other liabilities, the issuance of evidences of indebtedness and the incurring of any other obligations;

(ii) the making of tax, regulatory and other filings, or rendering of periodic or other reports to governmental or other agencies having jurisdiction over the business or assets of the Partnership;

(iii) the acquisition, disposition, mortgage, pledge, encumbrance, hypothecation or exchange of any or all of the assets of the Partnership or the merger or other combination of the Partnership with or into another Person (the matters described in this clause (iii) being subject, however,

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to any prior approval that may be required by Section 6.3);  
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(iv) the use of the assets of the Partnership (including cash on hand) for any purpose consistent with the terms of this Agreement, including the financing of the conduct of the operations of the Partnership or the Operating Partnership, the lending of funds to other Persons (including the

[Operating Partnership, the General Partner and its Affiliates) Group  
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Members), the repayment of obligations of the Partnership and the Operating  
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Partnership and the making of capital contributions to the Operating  
Partnership;

(v) the negotiation, execution and performance of any contracts, conveyances or other instruments (including instruments that limit the liability of the Partnership under contractual arrangements to all or particular assets of the Partnership, with the other party to the contract to have no recourse against the General Partner or its assets other than its interest in the Partnership, even if same results in the terms of the transaction being less favorable to the Partnership than would otherwise be the case);

(vi) the distribution of Partnership cash;

(vii) the selection and dismissal of employees, including those of the  
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Operating Partnership (including employees having titles such as  
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"president," "vice president," "secretary" and

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"treasurer") and agents, outside attorneys, accountants, consultants and contractors and the determination of their compensation and other terms of employment or hiring;

(viii) the maintenance of such insurance for the benefit of the Partnership Group and the Partners as it deems necessary or appropriate;

(ix) the formation of, or acquisition of an interest in, and the contribution of property and the making of loans to, any further limited or general partnerships, joint ventures, corporations, limited liability companies or other relationships (including the acquisition of interests in, and the contributions of property to, the Operating Partnership from time to time);

(x) the control of any matters affecting the rights and obligations of the Partnership, including the bringing and defending of actions at law or in equity and otherwise engaging in the conduct of litigation and the incurring of legal expense and the settlement of claims and litigation;

(xi) the indemnification of any Person against liabilities and contingencies to the extent permitted by law;

(xii) the entering into of listing agreements with any National Securities Exchange and the delisting of some or all of the Units from, or requesting that trading be suspended on, any such exchange (subject to any prior approval that may be required under Section 1.6);

(xiii) the purchase, sale or other acquisition or disposition of Units (subject to Section 6.12 and Section 17.1); and  
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(xiv) the undertaking of any action in connection with the Partnership's participation in the Operating Partnership as the limited partner.

(b) Notwithstanding any other provision of this Agreement, the Operating Partnership Agreement, the Delaware Act or any applicable law, rule or regulation, each of the Partners and Assignees and each other Person who may acquire an interest in Units hereby (i) approves, ratifies and confirms the execution, delivery and performance by the parties thereto of the Operating Partnership Agreement, the Underwriting Agreement, the Conveyance and Contribution Agreements, the agreements and other documents filed as exhibits  
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to the Proxy Statement and the Equity Offering Registration Statement, and the  
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other agreements described in or filed as a part of the Proxy Statement and the  
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Equity Registration Statement; (ii) agrees that the General Partner (on its own  
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or through any officer of the Partnership) is authorized to execute, deliver and perform the agreements referred to in clause (i) of this sentence and the other agreements, acts, transactions and matters described in or contemplated by the Proxy Statement and the Equity Registration Statement on behalf of the

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Partnership without any further act, approval or vote of the Partners or the Assignees or the other Persons who may acquire an interest in Units; and (iii) agrees that the execution, delivery or performance by the General Partner, any Group Member or any Affiliate of any of them, of this Agreement or any agreement authorized or permitted under this Agreement (including the exercise by the General Partner or any Affiliate of the General Partner of the rights accorded pursuant to Article XVII), shall not constitute a breach by the General Partner of any duty that the General Partner may owe the Partnership or the Limited Partners or the Assignees or any other Persons under this Agreement (or any other agreements) or of any duty stated or implied by law or equity.

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#### Section 6.2 Certificate of Limited Partnership.

The General Partner has caused the Certificate of Limited Partnership to be filed with the Secretary of State of the State of Delaware as required by the Delaware Act and shall use all reasonable efforts to cause to be filed such other certificates or documents as may be determined by the General Partner in its sole discretion to be reasonable and necessary or appropriate for the formation, continuation, qualification and operation of a limited partnership (or a partnership in which the limited partners have limited liability) in the State of Delaware or any other state in which the Partnership may elect to do business or own property. To the extent that such action is determined by the General Partner in its sole discretion to be reasonable and necessary or appropriate, the General Partner shall file amendments to and restatements of the Certificate of Limited Partnership and do all things to maintain the Partnership as a limited partnership (or a partnership in which the limited partners have limited liability) under the laws of the State of Delaware or of any other state in which the Partnership may elect to do business or own property. Subject to the terms of Section 7.5(a), the General Partner shall not be required, before or after filing, to deliver or mail a copy of the Certificate of Limited Partnership, any qualification document or any amendment thereto to any Limited Partner or Assignee.

#### Section 6.3 Restrictions on General Partner's Authority.

(a) The General Partner may not, without written approval of the specific act by all of the Outstanding Units or by other written instrument executed and delivered by all of the Outstanding Units subsequent to the date of this Agreement, take any action in contravention of this Agreement, including, except as otherwise provided in this Agreement, (i) committing any act that would make it impossible to carry on the ordinary business of the Partnership; (ii) possessing Partnership property, or assigning any rights in specific Partnership property, for other than a Partnership purpose; (iii) admitting a Person as a Partner; (iv) amending this Agreement in any manner; or (v) transferring its interest as general partner of the Partnership.

(b) Except as provided in Articles XIV and XVI, the General Partner may not sell, exchange or otherwise dispose of all or substantially all of the Partnership's assets in a single transaction or a series of related transactions or approve on behalf of the Partnership the sale, exchange or other disposition of all or substantially all of the assets of the Operating Partnership, without the approval of holders of a Unit Majority; provided, however, that this provision shall not preclude or limit the General Partner's ability to mortgage, pledge, hypothecate or grant a security interest in all or substantially all of the assets of the Partnership or Operating Partnership and shall not apply to any forced sale of any or all of the assets of the Partnership or Operating Partnership pursuant to the foreclosure of, or other realization upon, any such encumbrance. Without the approval of holders of a Unit Majority, the General Partner shall not, on behalf of the Partnership, (i) consent to any amendment to the Operating Partnership Agreement or, except as expressly permitted by Section 6.9(d), take any action permitted to be taken by a partner of the Operating Partnership, in either case, that would have a material adverse effect on the Partnership as a partner of the Operating Partnership or (ii) except as permitted under Sections 11.2, 13.1 and 13.2, elect or cause the Partnership to elect a successor general partner of the Operating Partnership.

[(c) At all times while serving as the general partner of the Partnership, the General Partner shall not make any dividend or distribution on, or repurchase any shares of, its stock or take any other action within its control if the effect of such action would cause its net worth, independent of its interest in the Partnership Group, to be less than \$6.0 million.]/

Section 6.4 Reimbursement of the General Partner.

(a) Except as provided in this Section 6.4 and elsewhere in this Agreement or in the Operating Partnership Agreement, the General Partner shall not be compensated for its services as general partner of any Group Member.

(b) The General Partner shall be reimbursed on a monthly basis, or such other basis as the General Partner may determine in its sole discretion, for (i) all direct and indirect expenses it incurs or payments it makes on behalf of the Partnership (including salary, bonus, incentive compensation and other amounts paid to any Person to perform services for the Partnership, the Operating

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Partnership or for the General Partner in the discharge of its duties to the

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Partnership), and (ii) all other necessary or appropriate expenses allocable to the Partnership or otherwise reasonably incurred by the General Partner in connection with operating the Partnership's business (including expenses allocated to the General Partner by its Affiliates). The General Partner shall determine the expenses that are allocable to the Partnership in any reasonable manner determined by the General Partner in its sole discretion. Reimbursements pursuant to this Section 6.4 shall be in addition to any reimbursement to the General Partner as a result of indemnification pursuant to Section 6.7.

(c) Subject to Section 4.5, the General Partner, in its sole discretion and without the approval of the Limited Partners (who shall have no right to vote in respect thereof), may propose, adopt and amend on behalf of the Partnership employee benefit plans, employee programs and employee practices (including plans, programs and practices involving the issuance of Units), or issue Partnership Securities pursuant to any employee benefit plan, employee program or employee practice maintained or sponsored by the General Partner or any of its Affiliates, in each case for the benefit of employees of the General Partner, any Group Member or any Affiliate, or any of them, in respect of services performed, directly or indirectly, for the benefit of the Partnership Group. The Partnership agrees to issue and sell to the General Partner or any of its Affiliates any Units or other Partnership Securities that the General Partner or such Affiliate is obligated to provide to any employees pursuant to any such employee benefit plans, employee programs or employee practices. Expenses incurred by the General Partner in connection with any such plans, programs and practices (including the net cost to the General Partner or such Affiliate of Units or other Partnership Securities purchased by the General Partner or such Affiliate from the Partnership to fulfill options or awards under such plans, programs and practices) shall be reimbursed in accordance with Section 6.4(b). Any and all obligations of the General Partner under any employee benefit plans, employee programs or employee practices adopted by the General Partner as permitted by this Section 6.4(c) shall constitute obligations of the General Partner hereunder and shall be assumed by any successor General Partner approved pursuant to Section 13.1 or 13.2 or the transferee of or successor to all of the General Partner's Partnership Interest (which is represented by the General Partner Units) as a general partner in the

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Partnership pursuant to Section 11.2.

Section 6.5 Outside Activities.

(a) After the Closing Date Effective Time, the General Partner, for so long as it is the general partner of the Partnership, shall not engage in any business or activity or incur any debts or liabilities except in connection with or incidental to (i) its performance as general partner of one or more Group Members or as described in or contemplated by the Registration Proxy

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Statement or (ii) the acquiring, owning or disposing of debt or equity

securities in any Group Member.

(b)  Petroleum Heat and Power Co., Inc. ("Petro") or an Affiliate may engage in the propane business provided it complies with the Non-competition Agreement  Certain Affiliates of the General Partner have entered into the -----  
Non-competition Agreement with the Partnership and the Operating Partnership,  
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which agreement sets forth certain restrictions on the ability of such  
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Affiliates to compete with the Partnership and the Operating Partnership. Any  
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amendments or waivers to the Non-competition Agreement must be approved by the Audit Committee.

(c) Except as restricted by Sections 6.5(a) or (b) and the Non-competition -----  
Agreement, each Indemnitee (other than the General Partner) shall have the  
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right to engage in businesses of every type and description and other  
activities for profit and to engage in and possess an interest in other  
business ventures of any and every type or description, whether in businesses  
engaged in or anticipated to be engaged in by any Group Member, independently  
or with others, including business interests and activities in direct  
competition with the business and activities of any Group Member, and none of  
the same shall constitute a breach of this Agreement or any duty to any Group  
Member or any Partner or Assignee. Neither any Group Member, any Limited  
Partner nor any other Person shall have any rights by virtue of this Agreement,  
the Operating Partnership Agreement or the partnership relationship established  
hereby or thereby in any business ventures of any Indemnitee.

(d)  Notwithstanding  Subject to Sections 6.5(a), (b) and (c) and the terms -----  
of the Non-competition Agreement, but otherwise notwithstanding anything to the  
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contrary in this Agreement, (i) the engaging in competitive activities by any  
Indemnitees (other than the General Partner) in accordance with the provisions  
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of this Section 6.5 is hereby approved by the Partnership and all Partners and  
(ii) it shall be deemed not to be a breach of the General Partner's fiduciary  
duty or any other obligation of any type whatsoever of the General Partner for  
the Indemnitees (other than the General Partner) to engage in such business  
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interests and activities in preference to or to the exclusion of the Partnership  
(including, without limitation, the General Partner and the Indemnitees shall  
have no obligation to present business opportunities to the Partnership).

(e) The General Partner and any of its Affiliates may acquire Units or other  
Partnership Securities in addition to those acquired  on  at the  Closing  
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Date  Effective Time and, except as otherwise provided in this Agreement,  
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shall be entitled to exercise all rights of an Assignee or Limited Partner, as  
applicable, relating to such Units or Partnership Securities.

(f) The term "Affiliates" when used in Section 6.5(b) with respect to the  
General Partner shall not include any Group Member or any Subsidiary of the  
Group Member.

Section 6.6 Loans from the General Partner; Contracts with Affiliates; Certain  
Restrictions on the General Partner.

(a) The General Partner or any Affiliate thereof may lend to any Group  
Member, and any Group Member may borrow, funds needed or desired by the Group  
Member for such periods of time and in such amounts as the General Partner may  
determine; provided, however, that in any such case the lending party may not  
charge the borrowing party interest at a rate greater than the rate that would  
be charged the borrowing party or impose terms less favorable to the borrowing  
party than would be charged or imposed on the borrowing party by unrelated  
lenders on comparable loans made on an arms'-length basis (without reference to  
the lending party's financial abilities or guarantees). The borrowing party  
shall reimburse the lending party for any costs (other than any additional

interest costs) incurred by the lending party in connection with the borrowing of such funds. For purposes of this Section 6.6(a) and Section 6.6(b), the term "Group Member" shall include any Affiliate of the Group Member that is controlled by the Group Member. The Partnership and the Operating Partnership may not  No Group Member may lend funds to the General Partner or any of its Affiliates.

(b) The Partnership may lend or contribute to any Group Member, and any Group Member may borrow, funds on terms and conditions established in the sole discretion of the General Partner; provided, however, that the Partnership may not charge the Group Member interest at a rate greater than the rate that would be charged to the Group Member (without reference to the General Partner's financial abilities or guarantees), by unrelated lenders on comparable loans. The foregoing authority shall be exercised by the General Partner in its sole discretion and shall not create any right or benefit in favor of any Group Member or any other Person.

(c) The General Partner may itself, or may enter into an agreement with any of its Affiliates to, render services to the Partnership or to the General Partner in the discharge of its duties as general partner of the Partnership. Any services rendered to the Partnership by the General Partner or any of its Affiliates shall be on terms that are fair and reasonable to the Partnership; provided, however, that the requirements of this Section 6.6(c) shall be deemed satisfied as to (i) any transaction approved by Special Approval, (ii) any transaction, the terms of which are no less favorable to the Partnership than those generally being provided to or available from unrelated third parties or (iii) any transaction that, taking into account the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous to the Partnership), is equitable to the Partnership. The provisions of Section 6.4 shall apply to the rendering of services described in this Section 6.6(c).

(d) The Partnership may transfer assets to joint ventures, other partnerships, corporations, limited liability companies or other business entities in which it is or thereby becomes a participant upon such terms and subject to such conditions as are consistent with this Agreement and applicable law.

(e) Neither the General Partner nor any of its Affiliates shall sell, transfer or convey any property to, or purchase any property from, the Partnership, directly or indirectly, except pursuant to transactions that are fair and reasonable to the Partnership; provided, however, that the requirements of this Section 6.6(e) shall be deemed to be satisfied as to (i) the transactions effected pursuant to

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Sections 4.1, 4.2 and 4.3, the Conveyance and Contribution Agreements and any other transactions described in or contemplated by the Registration  Proxy

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Statement, (ii) any transaction approved by Special Approval, (iii) any transaction, the terms of which are no less favorable to the Partnership than those generally being provided to or available from unrelated third parties, or (iv) any transaction that, taking into account the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous to the Partnership), is equitable to the Partnership. With respect to any contribution of assets to the Partnership in exchange for Units, the Audit Committee, in determining whether the appropriate number of Units are being issued, should take into account, among other things, the fair market value of the assets, the liquidated and contingent liabilities assumed, the tax basis in the assets, the extent to which tax-only allocations to the transferor will protect the existing partners of the Partnership against a low tax basis, and such other factors as the Audit Committee deems relevant under the circumstances.

(f) The General Partner and its Affiliates will have no obligation to permit any Group Member to use any facilities or assets of the General Partner and its Affiliates, except as may be provided in contracts entered into from time to time specifically dealing with such use, nor shall there be any obligation on the part of the General Partner or its Affiliates to enter into such contracts.

(g) Notwithstanding any provision of this Agreement to the contrary, prior to the termination of the Additional Capital Contribution Obligation, the

General Partner may not, (i) make any dividends or distributions of any cash or other assets to its stockholders, other than (v) the proceeds of the First Mortgage Notes (other than the \$6.0 million used to fund the Additional Capital Contribution Obligation), (w) the Subordinated Units, (x) distributions from the Partnership or the Operating Partnership, (y) interest and profits earned on Permitted Investments and (z) interest on any loan to Petro, (ii) incur any indebtedness for borrowed money (other than its obligations with respect to indebtedness of the Partnership, Operating Partnership or any other subsidiary entity of the Partnership) or (iii) merge with or into any other Person or permit any Person to merge with or into the General Partner or to sell all or substantially all of its assets in one or a series of transactions. In addition, prior to the termination of the Additional Capital Contribution Obligation the General Partner shall maintain \$6.0 million in Permitted Investments; provided, however, that such \$6.0 million shall be reduced from time to time to the extent and in the amount the Additional Capital Contribution Obligation is reduced in accordance with Section 4.2(b).[/]

[/](h) [//]Without limitation of Sections 6.6(a) through 6.6(f), and  
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notwithstanding anything to the contrary in this Agreement, the existence of the conflicts of interest described in the [//]Registration [//]Proxy Statement are  
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hereby approved by all Partners.

Section 6.7 Indemnification.

(a) To the fullest extent permitted by law but subject to the limitations expressly provided in this Agreement, all Indemnitees shall be indemnified and held harmless by the Partnership from and against any and all losses, claims, damages, liabilities, joint or several, expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements and other amounts arising from any and all claims, demands, actions, suits or proceedings, whether civil, criminal, administrative or investigative, in which any Indemnitee may be involved, or is threatened to be involved, as a party or otherwise, by reason of its status as an Indemnitee; provided, that in each case the Indemnitee acted

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[//]in good faith and in a manner that such Indemnitee reasonably believed to be in, or not opposed to, the best interests of the Partnership and, with respect to any criminal proceeding, had no reasonable cause to believe its conduct was unlawful; provided, further, no indemnification pursuant to this Section 6.7 shall be available to the General Partner or Petro with respect to their respective obligations incurred pursuant to the Underwriting Agreement or the Conveyance and Contribution[/] Agreements (other than obligations incurred by

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the General Partner on behalf of the Partnership or the Operating Partnership). The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that the Indemnitee acted in a manner contrary to that specified above. Any indemnification pursuant to this Section 6.7 shall be made only out of the assets of the Partnership, it being agreed that the General Partner shall not be personally liable for such indemnification and shall have no obligation to contribute or loan any monies or property to the Partnership to enable it to effectuate such indemnification.

(b) To the fullest extent permitted by law, expenses (including legal fees and expenses) incurred by an Indemnitee who is indemnified pursuant to Section 6.7(a) in defending any claim, demand, action, suit or proceeding shall, from time to time, be advanced by the Partnership prior to the final disposition of such claim, demand, action, suit or proceeding upon receipt by the Partnership of an undertaking by or on behalf of the Indemnitee to repay such amount if it shall be determined that the Indemnitee is not entitled to be indemnified as authorized in this Section 6.7.

(c) The indemnification provided by this Section 6.7 shall be in addition to any other rights to which an Indemnitee may be entitled under any agreement, pursuant to any vote of the holders of Outstanding Units, as a matter of law or otherwise, both as to actions in the Indemnitee's capacity as an Indemnitee and as to actions in any other capacity (including any capacity under the Underwriting Agreement), and shall continue as to an Indemnitee who has ceased to serve in such capacity and shall inure to the benefit of the heirs, successors, assigns and administrators of the Indemnitee.

(d) The Partnership may purchase and maintain (or reimburse the General Partner or its Affiliates for the cost of) insurance, on behalf of the General Partner and such other Persons as the General Partner shall determine, against any liability that may be asserted against or expense that may be incurred by such Person in connection with the Partnership's activities, regardless of whether the Partnership would have the power to indemnify such Person against such liability under the provisions of this Agreement.

(e) For purposes of this Section 6.7, the Partnership shall be deemed to have requested an Indemnitee to serve as fiduciary of an employee benefit plan whenever the performance by it of its duties to the Partnership also imposes duties on, or otherwise involves services by, it to the plan or participants or beneficiaries of the plan; excise taxes assessed on an Indemnitee with respect to an employee benefit plan pursuant to applicable law shall constitute "fines" within the meaning of Section 6.7(a); and action taken or omitted by it with respect to any employee benefit plan in the performance of its duties for a purpose reasonably believed by it to be in the interest of the participants and beneficiaries of the plan shall be deemed to be for a purpose which is in, or not opposed to, the best interests of the Partnership.

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(f) In no event may an Indemnitee subject the Limited Partners to personal liability by reason of the indemnification provisions set forth in this Agreement.

(g) An Indemnitee shall not be denied indemnification in whole or in part under this Section 6.7 because the Indemnitee had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by the terms of this Agreement.

(h) The provisions of this Section 6.7 are for the benefit of the Indemnitees, their heirs, successors, assigns and administrators and shall not be deemed to create any rights for the benefit of any other Persons.

(i) No amendment, modification or repeal of this Section 6.7 or any provision hereof shall in any manner terminate, reduce or impair the right of any past, present or future Indemnitee to be indemnified by the Partnership, nor the obligations of the Partnership to indemnify any such Indemnitee under and in accordance with the provisions of this Section 6.7 as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

#### Section 6.8 Liability of Indemnitees.

(a) Notwithstanding anything to the contrary set forth in this Agreement, no Indemnitee shall be liable for monetary damages to the Partnership, the Limited Partners, the Assignees or any other Persons who have acquired interests in the Units, for losses sustained or liabilities incurred as a result of any act or omission if such Indemnitee acted in good faith.

(b) Subject to its obligations and duties as General Partner set forth in Section 6.1(a), the General Partner may exercise any of the powers granted to it by this Agreement and perform any of the duties imposed upon it hereunder either directly or by or through its agents, and the General Partner shall not be responsible for any misconduct or negligence on the part of any such agent appointed by the General Partner in good faith.

(c) Any amendment, modification or repeal of this Section 6.8 or any provision hereof shall be prospective only and shall not in any way affect the limitations on the liability to the Partnership and the Limited Partners of the General Partner, its directors, officers and employees and any other Indemnitees under this Section 6.8 as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

#### Section 6.9 Resolution of Conflicts of Interest.

(a) Unless otherwise expressly provided in this Agreement or the Operating Partnership Agreement, whenever a potential conflict of interest exists or arises between the General Partner or any of its Affiliates, on the one hand, and the Partnership, the Operating Partnership, any Partner or any Assignee, on the other hand, any resolution or course of action in respect of such conflict of interest shall be permitted and deemed approved by all Partners, and shall not constitute a breach of this Agreement, of the Operating Partnership Agreement, of any agreement contemplated herein or

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therein, or of any duty stated or implied by law or equity, if the resolution or course of action is, or by operation of this Agreement is deemed to be, fair and reasonable to the Partnership. The General Partner shall be authorized but not required in connection with its resolution of such conflict of interest to seek Special Approval of a resolution of such conflict or course of action. Any conflict of interest and any resolution of such conflict of interest shall be conclusively deemed fair and reasonable to the Partnership if such conflict of interest or resolution is (i) approved by Special Approval, (ii) on terms no less favorable to the Partnership than those generally being provided to or available from unrelated third parties or (iii) fair to the Partnership, taking into account the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous to the Partnership). The General Partner may also adopt a resolution or course of action that has not received Special Approval. The General Partner (including the Audit Committee in connection with Special Approval) shall be authorized in connection with its determination of what is "fair and reasonable" to the Partnership and in connection with its resolution of any conflict of interest to consider (A) the relative interests of any party to such conflict, agreement, transaction or situation and the benefits and burdens relating to such interest; (B) any customary or accepted industry practices and any customary or historical dealings with a particular Person; (C) any applicable generally accepted accounting practices or principles; and (D) such additional factors as the General Partner (including the Audit Committee) determines in its sole discretion to be relevant, reasonable or appropriate under the circumstances. Nothing contained in this Agreement, however, is intended to nor shall it be construed to require the General Partner (including the Audit Committee) to consider the interests of any Person other than the Partnership. In the absence of bad faith by the General Partner, the resolution, action or terms so made, taken or provided by the General Partner with respect to such matter shall not constitute a breach of this Agreement or any other agreement contemplated herein or a breach of any standard of care or duty imposed herein or therein or, to the extent permitted by law, under the Delaware Act or any other law, rule or regulation.

(b) Whenever this Agreement or any other agreement contemplated hereby provides that the General Partner or any of its Affiliates is permitted or required to make a decision (i) in its "sole discretion" or "discretion," that it deems "necessary or appropriate" or "necessary or advisable" or under a grant of similar authority or latitude, except as otherwise provided herein, the General Partner or such Affiliate shall be entitled to consider only such interests and factors as it desires and shall have no duty or obligation to give any consideration to any interest of, or factors affecting, the Partnership, the Operating Partnership, any Limited Partner or any Assignee, (ii) it may make such decision in its sole discretion (regardless of whether there is a reference to "sole discretion" or "discretion") unless another express standard is provided for, or (iii) in "good faith" or under another express standard, the General Partner or such Affiliate shall act under such express standard and shall not be subject to any other or different standards imposed by this Agreement, the Operating Partnership Agreement, any other agreement contemplated hereby or under the Delaware Act or any other law, rule or regulation. In addition, any actions taken by the General Partner or such Affiliate consistent with the standards of "reasonable discretion" set forth in the definitions of Available Cash or Operating Surplus shall not constitute a breach of any duty of the General Partner to the Partnership or the Limited Partners. The General Partner shall have no duty, express or implied, to sell or otherwise dispose of any asset of the Partnership Group. No borrowing by any Group Member

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or the approval thereof by the General Partner shall be deemed to constitute a breach of any duty of the General Partner to the Partnership or the Limited

Partners by reason of the fact that the purpose or effect of such borrowing is directly or indirectly to (A) [ ]enable distributions respect of the general partner interest to exceed 1%[/] on the General Partner Units to exceed the -----  
General Partner's Percentage Interest of the total amount distributed or (B) -----  
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hasten the expiration of the Subordination Period or the conversion of any Senior Subordinated Units or Junior Subordinated Units into [ ]Common Units or -----  
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(C) enable the General Partner to avoid or reduce its Additional Capital Contribution Obligation.[/] Class B Common Units.  
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(c) Whenever a particular transaction, arrangement or resolution of a conflict of interest is required under this Agreement to be "fair and reasonable" to any Person, the fair and reasonable nature of such transaction, arrangement or resolution shall be considered in the context of all similar or related transactions.

(d) The Limited Partners hereby authorize the General Partner, on behalf of the Partnership as a partner of a Group Member, to approve of actions by the general partner of such Group Member similar to those actions permitted to be taken by the General Partner pursuant to this Section 6.9.

Section 6.10 Other Matters Concerning the General Partner.

(a) The General Partner may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) The General Partner may consult with legal counsel, accountants, appraisers, management consultants, investment bankers and other consultants and advisers selected by it, and any act taken or omitted to be taken in reliance upon the opinion (including an Opinion of Counsel) of such Persons as to matters that the General Partner reasonably believes to be within such Person's professional or expert competence shall be conclusively presumed to have been done or omitted in good faith and in accordance with such opinion.

(c) The General Partner shall have the right, in respect of any of its powers or obligations hereunder, to act through any of its duly authorized officers, a duly appointed attorney or attorneys-in-fact or the duly authorized officers of the Partnership.

(d) Any standard of care and duty imposed by this Agreement or under the Delaware Act or any applicable law, rule or regulation shall be modified, waived or limited, to the extent permitted by law, as required to permit the General Partner to act under this Agreement or any other agreement contemplated by this Agreement and to make any decision pursuant to the authority prescribed in this Agreement, so long as such action is reasonably believed by the General Partner to be in, or not inconsistent with, the best interests of the Partnership.

Section 6.11 Title to Partnership Assets.

Title to Partnership assets, whether real, personal or mixed and whether tangible or intangible, shall be deemed to be owned by the Partnership as an entity, and no Partner or Assignee, individually

or collectively, shall have any ownership interest in such Partnership assets or any portion thereof. Title to any or all of the Partnership assets may be held in the name of the Partnership, the General Partner, one or more of its Affiliates or one or more nominees, as the General Partner may determine. The General Partner hereby declares and warrants that any Partnership assets for which record title is held in the name of the General Partner or one or more of its Affiliates or one or more nominees shall be held by the General Partner or such Affiliate or nominee for the use and benefit of the Partnership in accordance with the provisions of this Agreement; provided, however, that the General Partner shall use its reasonable efforts to cause record title to such assets (other than those assets in respect of which the General Partner



determines that the expense and difficulty of conveyancing makes transfer of record title to the Partnership impracticable) to be vested in the Partnership as soon as reasonably practicable; provided that, prior to the withdrawal or removal of the General Partner or as soon thereafter as practicable, the General Partner shall use reasonable efforts to effect the transfer of record title to the Partnership and, prior to any such transfer, will provide for the use of such assets in a manner satisfactory to the Partnership. All Partnership assets shall be recorded as the property of the Partnership in its books and records, irrespective of the name in which record title to such Partnership assets is held. The General Partner covenants and agrees that at the [Closing Date] Effective Time, the Partnership Group shall have all licenses, permits,

certificates, franchises, or other governmental authorizations or permits necessary for the ownership of their properties or for the conduct of their businesses, except for such licenses, permits, certificates, franchises, or other governmental authorizations or permits, failure to have obtained which will not, individually or in the aggregate, have a material adverse effect on the Partnership Group.

Section 6.12 Purchase or Sale of Units.

The General Partner may cause the Partnership to purchase or otherwise acquire Units; provided that, except as permitted pursuant to Section 11.6 and Section 17.1(a), the General Partner may not cause the Partnership to purchase [Subordinated] Units other than Common Units during the Subordination Period.

As long as Units are held by any Group Member, such Units shall not be considered Outstanding for any purpose, except as otherwise provided herein. The General Partner or any Affiliate of the General Partner (other than a Group Member) may also purchase or otherwise acquire and sell or otherwise dispose of Units for its own account, subject to the provisions of Articles XI and XII.

Section 6.13 Registration Rights.

[6.13 Registration Rights of Star Gas and its Affiliates.] (a) If (i) [Star Gas the General Partner or any Affiliate of [Star Gas] the General Partner (including for purposes of this Section 6.13, any Person that is an Affiliate of [Star Gas] the General Partner at the date hereof notwithstanding that it may later cease to be an Affiliate of [Star Gas] the General Partner) holds Units or other Partnership Securities that it desires to sell and (ii) Rule 144 of the Securities Act (or any successor rule or regulation to Rule 144) or another exemption from registration is not available to enable such holder of Units (the "Holder") to dispose of the number of Units or other [securities] Partnership Securities it desires to sell at the time it desires to do so without registration under the Securities Act, then upon the request of [Star Gas] the General Partner or any of its Affiliates, the Partnership shall file with the Commission as promptly as practicable after receiving such request, and use all reasonable efforts to cause to become effective and remain effective for a period of not less than six months following its effective

date or such shorter period as shall terminate when all Units or other Partnership Securities covered by such registration statement have been sold, a registration statement under the Securities Act registering the offering and sale of the number of Units or other [ securities] Partnership Securities specified by the Holder; provided, however, that the Partnership shall not be required to effect more than three registrations pursuant to this Section

6.13(a); and provided, further, however, that if the Audit Committee determines in its good faith judgment that a postponement of the requested registration for up to six months would be in the best interests of the Partnership and its Partners due to a pending transaction, investigation or other event, the filing of such registration statement or the effectiveness thereof may be deferred for up to six months, but not thereafter. In connection with any registration pursuant to the immediately preceding sentence, the Partnership shall promptly prepare and file (x) such documents as may be necessary to register or qualify the []securities[] Partnership Securities subject to such registration under

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the securities laws of such states as the Holder shall reasonably request; provided, however, that no such qualification shall be required in any jurisdiction where, as a result thereof, the Partnership would become subject to general service of process or to taxation or qualification to do business as a foreign corporation or partnership doing business in such jurisdiction, and (y) such documents as may be necessary to apply for listing or to list the []securities[] Partnership Securities subject to such registration on such

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National Securities Exchange as the Holder shall reasonably request, and do any and all other acts and things that may reasonably be necessary or advisable to enable the Holder to consummate a public sale of such Units in such states. Except as set forth in Section 6.13(c), all costs and expenses of any such registration and offering (other than the underwriting discounts and commissions) shall be paid by the Partnership, without reimbursement by the Holder.

(b) If the Partnership shall at any time propose to file a registration statement under the Securities Act for an offering of equity securities of the Partnership for cash (other than an offering relating solely to an employee benefit plan), the Partnership shall use all reasonable efforts to include such number or amount of []securities[] Partnership Securities held by the Holder in

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such registration statement as the Holder shall request. If the proposed offering pursuant to this Section 6.13(b) shall be an underwritten offering, then, in the event that the managing underwriter of such offering advises the Partnership and the Holder in writing that in its opinion the inclusion of all or some of the Holder's Partnership Securities would adversely and materially

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affect the success of the offering, the Partnership shall include in such offering only that number or amount, if any, of Partnership Securities held by the Holder which, in the opinion of the managing underwriter, will not so adversely and materially affect the offering. Except as set forth in Section 6.13(c), all costs and expenses of any such registration and offering (other than the underwriting discounts and commissions) shall be paid by the Partnership, without reimbursement by the Holder.

(c) If underwriters are engaged in connection with any registration referred to in this Section 6.13(a) or (f), the Partnership shall provide indemnification, representations, covenants, opinions and other assurance to the underwriters in form and substance reasonably satisfactory to such underwriters. Further, in addition to and not in limitation of the Partnership's obligation under Section 6.7, the Partnership shall, to the fullest extent permitted by law, indemnify and hold harmless the Holder, its officers, directors and each Person who controls the Holder (within the meaning of the Securities Act) and any agent thereof (collectively, "Indemnified Persons") against any losses, claims, demands, actions, causes of action, assessments, damages, liabilities (joint or several), costs

and expenses (including interest, penalties and reasonable attorneys' fees and disbursements), resulting to, imposed upon, or incurred by the Indemnified Persons, directly or indirectly, under the Securities Act or otherwise (hereinafter referred to in this Section 6.13(c) as a "claim" and in the plural as "claims") based upon, arising out of or resulting from any untrue statement or alleged untrue statement of any material fact contained in any registration statement under which any Units were registered under the Securities Act or any state securities or Blue Sky laws, in any preliminary prospectus (if used prior to the effective date of such registration statement), or in any summary or final prospectus or in any amendment or supplement thereto (if used during the period the Partnership is required to keep the registration statement current), or arising out of, based upon or resulting from the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements made therein not misleading; provided,

however, that the Partnership shall not be liable to any Indemnified Person to the extent that any such claim arises out of, is based upon or results from an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, such preliminary, summary or final prospectus or such amendment or supplement, in reliance upon and in conformity with written information furnished to the Partnership by or on behalf of such Indemnified Person specifically for use in the preparation thereof. For

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purposes of this Section 6.13(c), the term "Holder" shall also include  
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Affiliates or former Affiliates of Petro holding Common Units and Senior  
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Subordinated Units.  
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(d) The provisions of Section 6.13(a) and (b) shall continue to be applicable with respect to the General Partner (and any of the General Partner's

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Affiliates) after it ceases to be a Partner of the Partnership, during a period of two years subsequent to the effective date of such cessation and for so long thereafter as is required for the Holder to sell all of the Units or other  
[ ]securities[ ] of the Partnership Securities with respect to which it has

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requested during such two-year period that a registration statement be filed; provided, however, that the Partnership shall not be required to file successive registration statements covering the same [ ]securities[ ] Partnership Securities

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for which registration was demanded during such two-year period. The provisions of Section 6.13(c) shall continue in effect thereafter.

(e) Any request to register Partnership Securities pursuant to this Section 6.13 shall (i) specify the Partnership Securities intended to be offered and sold by the Person making the request, (ii) express such Person's present intent to offer such [ ]shares[ ] Partnership Securities for distribution, (iii)

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describe the nature or method of the proposed offer and sale of Partnership Securities, and (iv) contain the undertaking of such Person to provide all such information and materials and take all action as may be required in order to permit the Partnership to comply with all applicable requirements in connection with the registration of such Partnership Securities.

(f) Prior to the Effective Time, the Partnership shall have filed with the  
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Commission a registration statement (the "Shelf Registration Statement") on an  
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appropriate form under the Securities Act relating to the resale of Common  
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Units and Senior Subordinated Units issued to Affiliates or former Affiliates  
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of Petro. The Partnership shall use all reasonable efforts to cause the Shelf  
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Registration Statement to become effective and remain effective for a period of  
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not less than one year from the Effective Time or such shorter period as shall  
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terminate when all Common Units and Senior Subordinated Units covered by the  
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Shelf Registration Statement have been sold pursuant to such registration  
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statement; provided, however, that if the Audit Committee determines in its  
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good  
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faith judgment that the sale or distribution of Common Units or Senior  
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Subordinated Units pursuant to the Shelf Registration Statement would not be in  
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the best interests of the Partnership and its Partners due to a pending  
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transaction, investigation or other event, the Audit Committee may elect that  
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the Shelf Registration Statement may not be used for a reasonable period of

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time, not to exceed 120 days in any 365-day period.  
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Section 6.14 Reliance by Third Parties.

Notwithstanding anything to the contrary in this Agreement, any Person dealing with the Partnership shall be entitled to assume that the General Partner and any officer of the Partnership authorized by the General Partner to act on behalf of and in the name of the Partnership has full power and authority to encumber, sell or otherwise use in any manner any and all assets of the Partnership and to enter into any contracts on behalf of the Partnership, and such Person shall be entitled to deal with the General Partner or any such officer as if it were the Partnership's sole party in interest, both legally and beneficially. Each Limited Partner hereby waives any and all defenses or other remedies that may be available against such Person to contest, negate or disaffirm any action of the General Partner or any such officer in connection with any such dealing. In no event shall any Person dealing with the General Partner or any such officer or its representatives be obligated to ascertain that the terms of this Agreement have been complied with or to inquire into the necessity or expedience of any act or action of the General Partner or any such officer or its representatives. Each and every certificate, document or other instrument executed on behalf of the Partnership by the General Partner or any such officer or its representatives shall be conclusive evidence in favor of any and every Person relying thereon or claiming thereunder that (a) at the time of the execution and delivery of such certificate, document or instrument, this Agreement was in full force and effect, (b) the Person executing and delivering such certificate, document or instrument was duly authorized and empowered to do so for and on behalf of the Partnership and (c) such certificate, document or instrument was duly executed and delivered in accordance with the terms and provisions of this Agreement and is binding upon the Partnership.

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ARTICLE VII

RIGHTS AND OBLIGATIONS OF LIMITED PARTNERS

Section 7.1 Limitation of Liability.

The Limited Partners, the Organizational Limited Partner and the Assignees shall have no liability under this Agreement except as expressly provided in this Agreement or the Delaware Act.

Section 7.2 Management of Business.

No Limited Partner or Assignee (other than the General Partner, any of its Affiliates or any officer, director, employee, partner, agent or trustee of the General Partner or any of its Affiliates, in its capacity as such, if such Person shall also be a Limited Partner or Assignee) shall participate in the operation, management or control (within the meaning of the Delaware Act) of the Partnership's business, transact any business in the Partnership's name or have the power to sign documents for or otherwise bind the Partnership. The transaction of any such business by the General Partner, any of its Affiliates or any member, officer, director, employee, partner, agent or trustee of the

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General Partner or any of its Affiliates, in its capacity as such, shall not affect, impair or eliminate the limitations on the liability of the Limited Partners or Assignees under this Agreement.

Section 7.3 Outside Activities.

Subject to the provisions of Section 6.5 and the Non-competition Agreement,  
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which shall continue to be applicable to the Persons referred to therein, regardless of whether such Persons shall also be Limited Partners or Assignees, any Limited Partner or Assignee shall be entitled to and may have business interests and engage in business activities in addition to those relating to the Partnership, including business interests and activities in direct competition with the Partnership Group. Neither the Partnership nor any of the other Partners or Assignees shall have any rights by virtue of this Agreement in any business ventures of any Limited Partner or Assignee.

Section 7.4 Return of Capital.

No Limited Partner or Assignee shall be entitled to the withdrawal or return of its Capital Contribution, except to the extent, if any, that distributions

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made pursuant to this Agreement or upon termination of the Partnership may be considered as such by law and then only to the extent provided for in this Agreement. Except to the extent provided by Article V or as otherwise expressly provided in this Agreement, no Limited Partner or Assignee shall have priority over any other Limited Partner or Assignee either as to the return of Capital

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Contributions or as to profits, losses or distributions. Any such return shall be a compromise to which all Partners and Assignees agree within the meaning of [ ](S) [ / ] Section 17-502(b) of the Delaware Act.

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Section 7.5 Rights of Limited Partners to the Partnership.

(a) In addition to other rights provided by this Agreement or by applicable law, and except as limited by Section 7.5(b), each Limited Partner shall have the right, for a purpose reasonably related to such Limited Partner's interest as a limited partner in the Partnership, upon reasonable demand and at such Limited Partner's own expense:

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(i) to obtain true and full information regarding the status of the business and financial condition of the Partnership;

(ii) promptly after becoming available, to obtain a copy of the Partnership's federal, state and local tax returns for each year;

(iii) to have furnished to him, upon notification to the General Partner, a current list of the name and last known business, residence or mailing address of each Partner;

(iv) to have furnished to him, upon notification to the General Partner, a copy of this Agreement and the Certificate of Limited Partnership and all amendments thereto, together with a copy of the executed copies of all powers of attorney pursuant to which this Agreement, the Certificate of Limited Partnership and all amendments thereto have been executed;

(v) to obtain true and full information regarding the amount of cash and a description and statement of the Net Agreed Value of any other Capital  
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Contribution by each Partner and which each Partner has agreed to contribute in the future, and the date on which each became a Partner; and

(vi) to obtain such other information regarding the affairs of the Partnership as is just and reasonable.

(b) The General Partner may keep confidential from the Limited Partners and Assignees, for such period of time as the General Partner deems reasonable, (i) any information that the General Partner reasonably believes to be in the nature of trade secrets or (ii) other information the disclosure of which the General Partner in good faith believes (A) is not in the best interests of the Partnership Group, (B) could damage the Partnership Group or (C) that any Group Member is required by law or by agreements with third parties to keep confidential (other than agreements with Affiliates the primary purpose of which is to circumvent the obligations set forth in this Section 7.5).

ARTICLE VIII

BOOKS, RECORDS, ACCOUNTING AND REPORTS

Section 8.1 Records and Accounting.

The General Partner shall keep or cause to be kept at the principal office of the Partnership appropriate books and records with respect to the Partnership's business, including all books and records necessary to provide to the Limited Partners any information required to be provided pursuant to Section 7.5(a). Any books and records maintained by or on behalf of the Partnership in the regular course of its business, including the record of the Record Holders and

Assignees of Units or other Partnership Securities, books of account and records of Partnership proceedings, may be kept on, or be in the form of, computer disks, hard drives, punch cards, magnetic tape, photographs, micrographics or any other information storage device; provided, that the books and records so maintained are convertible into clearly legible written form within a reasonable period of time. The books of the Partnership shall be maintained, for financial reporting purposes, on an accrual basis in accordance with generally accepted accounting principles.

#### Section 8.2 Fiscal Year.

The fiscal year of the Partnership shall be October 1 to September 30.

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#### Section 8.3 Reports.

(a) As soon as practicable, but in no event later than 120 days after the close of each fiscal year of the Partnership, the General Partner shall cause to be mailed to each Record Holder of a Unit as of a date selected by the General Partner in its sole discretion, an annual report containing financial statements of the Partnership for such fiscal year of the Partnership, presented in accordance with generally accepted accounting principles, including a balance sheet and statements of operations, Partners' equity and cash flows, such statements to be audited by a firm of independent public accountants selected by the General Partner.

(b) As soon as practicable, but in no event later than 90 days after the close of each Quarter except the last Quarter of each fiscal year, the General Partner shall cause to be mailed to each Record Holder of a Unit, as of a date selected by the General Partner in its sole discretion, a report containing unaudited financial statements of the Partnership and such other information as may be required by applicable law, regulation or rule of any National Securities Exchange on which the Units are listed for trading, or as the General Partner determines to be necessary or appropriate.

### ARTICLE IX

#### TAX MATTERS

#### Section 9.1 Tax Returns and Information.

The General Partner shall timely file all returns of the Partnership that are required for federal, state and local income tax purposes on the basis of the accrual method and a taxable year ending on December 31. The tax information reasonably required by Record Holders for federal and state income tax reporting purposes with respect to a taxable year shall be furnished to them within 90 days of the close of the calendar year in which the Partnership's taxable year ends. The classification, realization and recognition of income, gain, losses and deductions and other items shall be on the accrual method of accounting for federal income tax purposes.

#### Section 9.2 Tax Elections.

(a) The Partnership shall make the election under Section 754 of the Code in accordance with applicable regulations thereunder, subject to the reservation of the right to seek to revoke any such election upon the General Partner's determination that such revocation is in the best interests of the Limited Partners. For the purposes of computing the adjustments under Section 743(b) of the Code, the General Partner shall be authorized (but not required) to adopt a convention whereby the price paid by a transferee of Units will be deemed to be the lowest quoted closing price of the Units on any National Securities Exchange on which such Units are traded during the calendar month in which such transfer is deemed to occur pursuant to Section 5.2(g) without regard to the actual price paid by such transferee.

(b) The Partnership shall elect to deduct expenses incurred in organizing the Partnership ratably over a sixty-month period as provided in Section 709 of the Code.

(c) Except as otherwise provided herein, the General Partner shall determine whether the Partnership should make any other elections permitted by the Code.

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Section 9.3 Tax Controversies.

Subject to the provisions hereof, the General Partner is designated as the Tax Matters Partner (as defined in Section 6231 of the Code) and is authorized and required to represent the Partnership (at the Partnership's expense) in connection with all examinations of the Partnership's affairs by tax authorities, including resulting administrative and judicial proceedings, and to expend Partnership funds for professional services and costs associated therewith. Each Partner agrees to cooperate with the General Partner and to do or refrain from doing any or all things reasonably required by the General Partner to conduct such proceedings.

Section 9.4 Withholding.

Notwithstanding any other provision of this Agreement, the General Partner is authorized to take any action that it determines in its sole discretion to be necessary or appropriate to cause the Partnership and the Operating Partnership to comply with any withholding requirements established under the Code or any other federal, state or local law including, without limitation, pursuant to Sections 1441, 1442, 1445 and 1446 of the Code. To the extent that the Partnership is required to withhold and pay over to any taxing authority any amount resulting from the allocation or distribution of income to any Partner or Assignee (including, without limitation, by reason of Section 1446 of the Code), the amount withheld shall be treated as a distribution of cash pursuant to Section 5.3 in the amount of such withholding from such Partner.

ARTICLE X  
CERTIFICATES

Section 10.1 Certificates.

Upon the Partnership's issuance of Common Units or Senior Subordinated Units  
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to any Person, the Partnership shall issue one or more Certificates in the name of such Person evidencing the number of such Units being so issued. Certificates shall be executed on behalf of the Partnership by the General Partner. No Common Unit or Senior Subordinated Unit Certificate shall be valid  
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for any purpose until it has been countersigned by the Transfer Agent; provided, however, that if the General Partner elects to issue Units in global  
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form, the Certificates shall be valid upon receipt of a certificate from the  
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Transfer Agent certifying that such Units have been duly registered in  
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accordance with the directions of the Partnership and the Underwriters. The  
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Partners holding Certificates evidencing Senior Subordinated Units may exchange  
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such Certificates for Certificates evidencing Class B Common Units on or after the [ ]date on which such Subordinated Units are converted into Common Units pursuant to the terms of Section 4.6.[/] expiration of the Subordination Period.

Section 10.2 Registration, Registration of Transfer and Exchange.

(a) The General Partner shall cause to be kept on behalf of the Partnership a register in which, subject to such reasonable regulations as it may prescribe and subject to the provisions of Section 10.2(b), the General Partner will provide for the registration and transfer of Units. The Transfer Agent is appointed registrar and transfer agent for the purpose of registering Common Units and Senior Subordinated Units and transfers of such Units as provided. The Partnership shall not

recognize transfers of Certificates representing Units unless such transfers are effected in the manner described in this Section 10.2. Upon surrender for registration of transfer of any Units evidenced by a Certificate, and subject to the provisions of Section 10.2(b), the General Partner on behalf of the Partnership shall execute, and the Transfer Agent shall countersign and deliver (or, in the case of Units issued in global form, register in accordance with  
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the rules and regulations of the Depository), in the name of the holder or the  
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designated transferee or transferees, as required pursuant to the holder's  
instructions, one or more new Certificates evidencing the same aggregate number  
of Units as was evidenced by the Certificate so surrendered.

(b) Except as otherwise provided in Section 11.5, the Partnership shall not recognize any transfer of Units until the Certificates evidencing such Units are surrendered for registration of transfer and such Certificates are accompanied by a Transfer Application duly executed by the transferee (or the transferee's attorney-in-fact duly authorized in writing). No charge shall be imposed by the Partnership for such transfer; provided that as a condition to the issuance of any new Certificate under this Section 10.2, the General Partner may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed with respect thereto.

#### Section 10.3 Mutilated, Destroyed, Lost or Stolen Certificates.

(a) If any mutilated Certificate is surrendered to the Transfer Agent, the General Partner on behalf of the Partnership shall execute, and upon its request the Transfer Agent shall countersign and deliver in exchange therefor, a new Certificate evidencing the same number of Units as the Certificate so surrendered.

(b) The General Partner on behalf of the Partnership shall execute, and upon its request the Transfer Agent shall countersign and deliver (or, in the case of Units issued in global form, register in accordance with the rules and regulations of the Depository) a new Certificate in place of any Certificate previously issued if the Record Holder of the Certificate:

(i) makes proof by affidavit, in form and substance satisfactory to the General Partner, that a previously issued Certificate has been lost, destroyed or stolen;

(ii) requests the issuance of a new Certificate before the Partnership has notice that the Certificate has been acquired by a purchaser for value in good faith and without notice of an adverse claim;

(iii) if requested by the General Partner, delivers to the Partnership a bond, in form and substance satisfactory to the General Partner, with surety or sureties and with fixed or open penalty as the General Partner may reasonably direct, in its sole discretion, to indemnify the Partnership, the General Partner and the Transfer Agent against any claim that may be made on account of the alleged loss, destruction or theft of the Certificate; and

(iv) satisfies any other reasonable requirements imposed by the General Partner.

If a Limited Partner or Assignee fails to notify the Partnership within a reasonable time after he has notice of the loss, destruction or theft of a Certificate, and a transfer of the Units represented by the Certificate is registered before the Partnership, the General Partner or the Transfer Agent receives such notification, the Limited Partner or Assignee shall be precluded from making any claim against the Partnership, the General Partner or the Transfer Agent for such transfer or for a new Certificate.

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(c) As a condition to the issuance of any new Certificate under this Section 10.3, the General Partner may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Transfer Agent) reasonably connected therewith.

#### Section 10.4 Record Holder.

In accordance with Section 10.2(b), the Partnership shall be entitled to recognize the Record Holder as the Limited Partner or Assignee with respect to any Units and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such Units on the part of any other Person, regardless of whether the Partnership shall have actual or other notice thereof, except as otherwise provided by law or any applicable rule, regulation, guideline or requirement of any National Securities Exchange on



which the Units are listed for trading. Without limiting the foregoing, when a Person (such as a broker, dealer, bank, trust company or clearing corporation or an agent of any of the foregoing) is acting as nominee, agent or in some other representative capacity for another Person in acquiring and/or holding Units, as between the Partnership on the one hand, and such other Persons, on the other, such representative Person (a) shall be the Limited Partner or Assignee (as the case may be) of record and beneficially, (b) must execute and deliver a Transfer Application and (c) shall be bound by this Agreement and shall have the rights and obligations of a Limited Partner or Assignee (as the case may be) hereunder and as provided for herein.

ARTICLE XI

TRANSFER OF INTERESTS

Section 11.1 Transfer.

(a) The term "transfer," when used in this Article XI with respect to a Partnership Interest, shall be deemed to refer to a transaction by which the General Partner assigns its Partnership General Partner Interest (which is -----  
represented by the General Partner Units) [ ] as a general partner in the  
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Partnership [ ] to another Person or by which the holder of a Limited Partner  
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Interest assigns such Unit Limited Partner Interest to another Person who is or  
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becomes an Assignee, and includes a sale, assignment, gift, pledge,  
encumbrance, hypothecation, mortgage, exchange or any other disposition by law  
or otherwise.

(b) No Partnership Interest shall be transferred, in whole or in part, except in accordance with the terms and conditions set forth in this Article XI. Any transfer or purported transfer of a Partnership Interest not made in accordance with this Article XI shall be null and void.

(c) Nothing contained in this Article XI shall be construed to prevent a disposition by the [ ] parent entity [ ] members of the General Partner of any or  
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all of the issued and outstanding [ ] capital stock of [ ] member interests in the  
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General Partner.

(d) Nothing contained in this Article XI, or elsewhere in this Partnership Agreement, shall preclude the settlement of any transactions involving  
[ ] Common [ ] Units entered into through the facilities of any National Securities Exchange on which the Units are listed for trading.  
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Section 11.2 Transfer of a General Partner's Partnership Interest.

Except for a transfer by the General Partner of all, but not less than all, of its [ ] Partnership [ ] General Partner Interest [ ] as a general partner in the  
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Partnership [ ] to (a) an Affiliate of the General Partner or (b) another Person in connection with the merger or consolidation of the General Partner with or into another Person, which in either case, shall only be limited by the provisions of this Section 11.2, the transfer by the General Partner of all or any part of its [ ] Partnership [ ] General Partner Interest [ ] as a general partner  
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in the Partnership [ ] to a Person prior to December 31, 2005 shall be subject to the prior approval of holders of a Unit Majority. Notwithstanding anything herein to the contrary, no transfer by the General Partner of all or any part of its [ ] Partnership [ ] General Partner Interest [ ] as a general partner in the  
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Partnership [ ] to another Person shall be permitted unless (i) the transferee agrees to assume the rights and duties of the General Partner under this Agreement and the Operating Partnership Agreement and to be bound by the provisions of this Agreement and the Operating Partnership Agreement, (ii) the Partnership receives an Opinion of Counsel that such transfer would not result in the loss of limited liability of any Limited Partner or of any limited partner of any Group Member or cause any Group Member to be treated as an

association taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes and (iii) such transferee also agrees to purchase all (or the appropriate portion thereof, if applicable) of the partnership interest of the General Partner as the general partner of each Group Member. In the case of a transfer pursuant to and in compliance with this Section 11.2, the transferee or successor (as the case may be) shall, subject to compliance with the terms of Section 12.3, be admitted to the Partnership as a General Partner immediately prior to the transfer of the [ ]Partnership[ / ] General Partner  
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Interest, and the business of the Partnership shall continue without dissolution.

#### Section 11.3 Transfer of Units.

(a) Units may be transferred only in the manner described in [ ]Section 10[ / ] Article X. The transfer of any Units and the admission of any new Partner shall -----  
not constitute an amendment to this Agreement.

(b) Until admitted as a Substituted Limited Partner pursuant to Article XII, the Record Holder of a Unit shall be an Assignee in respect of such Unit. Limited Partners may include custodians, nominees, or any other individual or entity in its own or any representative capacity.

(c) Each distribution in respect of Units shall be paid by the Partnership, directly or through the Transfer Agent or through any other Person or agent, only to the Record Holders thereof as of the Record Date set for the distribution. Such payment shall constitute full payment and satisfaction of the Partnership's liability in respect of such payment, regardless of any claim of any Person who may have an interest in such payment by reason of an assignment or otherwise.

(d) A transferee who has completed and delivered a Transfer Application shall be deemed to have (i) requested admission as a Substituted Limited Partner, (ii) agreed to comply with and be bound by and to have executed this Agreement, (iii) represented and warranted that such transferee has the right, power and authority and, if an individual, the capacity to enter into this Agreement, (iv) granted the powers of attorney set forth in this Agreement and (v) given the consents and approvals and made the waivers contained in this Agreement.

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#### Section 11.4 Restrictions on Transfers.

Notwithstanding the other provisions of this Article XI, no transfer of any Unit or interest therein of any Limited Partner or Assignee shall be made if such transfer would (a) violate the then applicable federal or state securities laws or rules and regulations of the Commission, any state securities commission or any other governmental authorities with jurisdiction over such transfer, (b) affect any Group Member's existence or qualification as a limited partnership under the laws of the jurisdiction of its formation, or (c) result in entity-level taxation for federal income tax purposes of the Partnership or the Operating Partnership.

#### Section 11.5 Citizenship Certificates; Non-citizen Assignees.

(a) If any Group Member is or becomes subject to any federal, state or local law or regulation that, in the reasonable determination of the General Partner, creates a substantial risk of cancellation or forfeiture of any property in which the Group Member has an interest based on the nationality, citizenship or other related status of a Limited Partner or Assignee, the General Partner may request any Limited Partner or Assignee to furnish to the General Partner, within 30 days after receipt of such request, an executed Citizenship Certification or such other information concerning his nationality, citizenship or other related status (or, if the Limited Partner or Assignee is a nominee holding for the account of another Person, the nationality, citizenship or other related status of such Person) as the General Partner may request. If a Limited Partner or Assignee fails to furnish to the General Partner within the aforementioned 30-day period such Citizenship Certification or other requested information or if upon receipt of such Citizenship Certification or other requested information the General Partner determines, with the advice of counsel, that a Limited Partner or Assignee is not an Eligible Citizen, the Units owned by such Limited Partner or Assignee shall be subject to redemption in accordance with the provisions of Section 11.6. In addition, the General

Partner may require that the status of any such Limited Partner or Assignee be changed to that of a Non-citizen Assignee and, thereupon, the General Partner shall be substituted for such Non-citizen Assignee as the Limited Partner in respect of his Units.

(b) The General Partner shall, in exercising voting rights in respect of Units held by it on behalf of Non-citizen Assignees, distribute the votes in the same ratios as the votes of Limited Partners in respect of Units other than those of Non-citizen Assignees are cast, either for, against or abstaining as to the matter.

(c) Upon dissolution of the Partnership, a Non-citizen Assignee shall have no right to receive a distribution in kind pursuant to Section 14.4 but shall be entitled to the cash equivalent thereof, and the General Partner shall provide cash in exchange for an assignment of the Non-citizen Assignee's share of the distribution in kind. Such payment and assignment shall be treated for Partnership purposes as a purchase by the General Partner from the Non-citizen Assignee of his Partnership Interest (representing his right to receive his share of such distribution in kind).

(d) At any time after he can and does certify that he has become an Eligible Citizen, a Non-citizen Assignee may, upon application to the General Partner, request admission as a Substituted Limited Partner with respect to any Units of such Non-citizen Assignee not redeemed pursuant to Section 11.6, and upon his admission pursuant to Section 12.2, the General Partner shall cease to be deemed to be the Limited Partner in respect of the Non-citizen Assignee's Units.

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#### Section 11.6 Redemption of Interests.

(a) If at any time a Limited Partner or Assignee fails to furnish a Citizenship Certification or other information requested within the 30-day period specified in Section 11.5(a), or if upon receipt of such Citizenship Certification or other information the General Partner determines, with the advice of counsel, that a Limited Partner or Assignee is not an Eligible Citizen, the Partnership may, unless the Limited Partner or Assignee establishes to the satisfaction of the General Partner that such Limited Partner or Assignee is an Eligible Citizen or has transferred his Units to a Person who furnishes a Citizenship Certification to the General Partner prior to the date fixed for redemption as provided below, redeem the Partnership Interest of such Limited Partner or Assignee as follows:

(i) The General Partner shall, not later than the 30th day before the date fixed for redemption, give notice of redemption to the Limited Partner or Assignee, at his last address designated on the records of the Partnership or the Transfer Agent, by registered or certified mail, postage prepaid. The notice shall be deemed to have been given when so mailed. The notice shall specify the Redeemable Units, the date fixed for redemption, the place of payment, that payment of the redemption price will be made upon surrender of the Certificate evidencing the Redeemable Units and that on and after the date fixed for redemption no further allocations or distributions to which the Limited Partner or Assignee would otherwise be entitled in respect of the Redeemable Units will accrue or be made.

(ii) The aggregate redemption price for Redeemable Units shall be an amount equal to the Current Market Price (the date of determination of which shall be the date fixed for redemption) of Units of the class to be so redeemed multiplied by the number of Units of each such class included among the Redeemable Units. The redemption price shall be paid, in the sole discretion of the General Partner, in cash or by delivery of a promissory note of the Partnership in the principal amount of the redemption price, bearing interest at the rate of 10% annually and payable in three equal annual installments of principal together with accrued interest, commencing one year after the redemption date.

(iii) Upon surrender by or on behalf of the Limited Partner or Assignee, at the place specified in the notice of redemption, of the Certificate evidencing the Redeemable Units, duly endorsed in blank or accompanied by an assignment duly executed in blank, the Limited Partner or Assignee or his duly authorized representative shall be entitled to receive the payment therefor.

(iv) After the redemption date, Redeemable Units shall no longer constitute issued and Outstanding Units.

(b) The provisions of this Section 11.6 shall also be applicable to Units held by a Limited Partner or Assignee as nominee of a Person determined to be other than an Eligible Citizen.

(c) Nothing in this Section 11.6 shall prevent the recipient of a notice of redemption from transferring his Units before the redemption date if such transfer is otherwise permitted under this Agreement. Upon receipt of notice of such a transfer, the General Partner shall withdraw the notice of redemption provided the transferee of such Units certifies in the Transfer Application that he is an Eligible Citizen. If the transferee fails to make such certification, such redemption shall be effected from the transferee on the original redemption date.

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## ARTICLE XII

### ADMISSION OF PARTNERS

#### Section 12.1 Admission of Initial Limited Partners.

Upon the issuance by the Partnership of the Old Subordinated Units to the Initial General Partner [ ]as described in Section 4.2, the[ ] in connection with  
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the Initial Offering, the Initial General Partner [ ]shall be deemed to have[ ]  
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been admitted to the Partnership as a Limited Partner [ ]in respect of the  
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Subordinated Units issued to it.[ ] Upon the issuance by the Partnership of  
Common Units to the Initial Underwriters as described in Section 4.3 in  
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connection with the Initial Offering and the execution by [ ]each Underwriter[ ]  
the Initial Underwriters of a Transfer Application, the General Partner shall  
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admit the Initial Underwriters were admitted to the Partnership as Initial  
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Limited Partners [ ]in respect of the Common Units purchased by them[ ].

#### Section 12.2 Admission of Substituted Limited Partners.

By transfer of a Unit representing a Limited Partner Interest in accordance  
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with Article XI, the transferor shall be deemed to have given the transferee  
the right to seek admission as a Substituted Limited Partner subject to the  
conditions of, and in the manner permitted under, this Agreement. A transferor  
of a Certificate representing a Limited Partner Interest shall, however, only  
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have the authority to convey to a purchaser or other transferee who does not  
execute and deliver a Transfer Application (a) the right to negotiate such  
Certificate to a purchaser or other transferee and (b) the right to transfer  
the right to request admission as a Substituted Limited Partner to such  
purchaser or other transferee in respect of the transferred Units. Each  
transferee of a Unit representing a Limited Partner Interest (including any  
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nominee holder or an agent acquiring such Unit for the account of another  
Person) who executes and delivers a Transfer Application shall, by virtue of  
such execution and delivery, be an Assignee and be deemed to have applied to  
become a Substituted Limited Partner with respect to the Units so transferred  
to such Person. Such Assignee shall become a Substituted Limited Partner (x) at  
such time as the General Partner consents thereto, which consent may be given  
or withheld in the General Partner's sole discretion, and (y) when any such  
admission is shown on the books and records of the Partnership. If such consent  
is withheld, such transferee shall be an Assignee. An Assignee shall have an  
interest in the Partnership equivalent to that of a Limited Partner with  
respect to allocations and distributions, including liquidating distributions,  
of the Partnership. With respect to voting rights attributable to Units that  
are held by Assignees, the General Partner shall be deemed to be the Limited  
Partner with respect thereto and shall, in exercising the voting rights in  
respect of such Units on any matter, vote such Units at the written direction  
of the Assignee who is the Record Holder of such Units. If no such written  
direction is received, such Units will not be voted. An Assignee shall have no

other rights of a Limited Partner.

Section 12.3 Admission of Successor General Partner.

A successor General Partner approved pursuant to Section 13.1 or 13.2 or the transferee of or successor to all []of the General Partner's Partnership Interest as a general partner in the Partnership[/] the General Partner Interest

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pursuant to Section 11.2 who is proposed to be admitted as a successor General Partner shall be admitted to the Partnership as the General Partner, effective immediately prior to the withdrawal or removal of the General Partner pursuant to Section 13.1 or 13.2 or the transfer of the General []Partner's Partnership Interest as a general partner in the Partnership[/] Partner  
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Interest pursuant to Section 11.2; provided, however, that no such successor

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shall be admitted to the Partnership until compliance with the terms of Section 11.2 has occurred and such successor has executed and delivered such other documents or instruments as may be required to effect such admission. Any such successor shall, subject to the terms hereof, carry on the business of the Partnership and Operating Partnership without dissolution.

Section 12.4 Admission of Additional Limited Partners.

(a) A Person (other than the General Partner, an Initial Limited Partner or a Substituted Limited Partner) who makes a Capital Contribution to the

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Partnership in accordance with this Agreement [] (other than by virtue of a capital contribution pursuant to the Additional Capital Contribution Obligation)[/] shall be admitted to the Partnership as an Additional Limited Partner only upon furnishing to the General Partner (i) evidence of acceptance in form satisfactory to the General Partner of all of the terms and conditions of this Agreement, including the power of attorney granted in Section 1.4, and (ii) such other documents or instruments as may be required in the discretion of the General Partner to effect such Person's admission as an Additional Limited Partner.

(b) Notwithstanding anything to the contrary in this Section 12.4, no Person shall be admitted as an Additional Limited Partner without the consent of the General Partner, which consent may be given or withheld in the General Partner's sole discretion. The admission of any Person as an Additional Limited Partner shall become effective on the date upon which the name of such Person is recorded as such in the books and records of the Partnership, following the consent of the General Partner to such admission.

Section 12.5 Amendment of Agreement and Certificate of Limited Partnership.

To effect the admission to the Partnership of any Partner, the General Partner shall take all steps necessary and appropriate under the Delaware Act to amend the records of the Partnership to reflect such admission and, if necessary, to prepare as soon as practical an amendment of this Agreement and, if required by law, to prepare and file an amendment to the Certificate of Limited Partnership, and the General Partner may for this purpose, among others, exercise the power of attorney granted pursuant to Section 1.4.

ARTICLE XIII

WITHDRAWAL OR REMOVAL OF PARTNERS

Section 13.1 Withdrawal of the General Partner.

(a) The General Partner shall be deemed to have withdrawn from the Partnership upon the occurrence of any one of the following events (each such event herein referred to as an "Event of Withdrawal");

(i) the General Partner voluntarily withdraws from the Partnership by giving written notice to the other Partners (and it shall be deemed that the General Partner has withdrawn pursuant to this Section 13.1(a) (i) if the General Partner voluntarily withdraws as general partner of the Operating Partnership);

(ii) the General Partner transfers all of its rights as General Partner

pursuant to Section 11.2;

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(iii) the General Partner is removed pursuant to Section 13.2;

(iv) the General Partner (A) makes a general assignment for the benefit of creditors; (B) files a voluntary bankruptcy petition for relief under Chapter 7 of the United States Bankruptcy Code; (C) files a petition or answer seeking for itself a liquidation, dissolution or similar relief (but not a reorganization) under any law; (D) files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against the General Partner in a proceeding of the type described in clauses (A)-(C) of this Section 13.1(a)(iv); or (E) seeks, consents to or acquiesces in the appointment of a trustee (but not a debtor in possession), receiver or liquidator of the General Partner or of all or any substantial part of its properties;

(v) a final and non-appealable order of relief under Chapter 7 of the United States Bankruptcy Code is entered by a court with appropriate jurisdiction pursuant to a voluntary or involuntary petition by or against the General Partner; or

(vi) a certificate of dissolution or its equivalent is filed for the General Partner, or 90 days expire after the date of notice to the General Partner of revocation of its charter without a reinstatement of its charter, under the laws of its state of incorporation or formation.

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If an Event of Withdrawal specified in Section 13.1(a)(iv), (v) or (vi) occurs, the withdrawing General Partner shall give notice to the Limited Partners within 30 days after such occurrence. The Partners hereby agree that only the Events of Withdrawal described in this Section 13.1 shall result in the withdrawal of the General Partner from the Partnership.

(b) Withdrawal of the General Partner from the Partnership upon the occurrence of an Event of Withdrawal shall not constitute a breach of this Agreement under the following circumstances: (i) at any time during the period beginning on the Closing Date and ending at 12:00 midnight, Eastern Standard Time, on December 31, 2005, the General Partner voluntarily withdraws by giving at least 90 days' advance notice of its intention to withdraw to the Limited Partners provided that prior to the effective date of such withdrawal, the withdrawal is approved by Limited Partners holding at least a Unit Majority and the General Partner delivers to the Partnership an Opinion of Counsel ("Withdrawal Opinion of Counsel") that such withdrawal (following the selection of the successor General Partner) would not result in the loss of the limited liability of any Limited Partner or of the limited partner of any Group Member or cause any Group Member to be treated as an association taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes; (ii) at any time after 12:00 midnight, Eastern Standard Time, on December 31, 2005, the General Partner voluntarily withdraws by giving at least 90 days' advance notice to the Limited Partners, such withdrawal to take effect on the date specified in such notice; (iii) at any time that the General Partner ceases to be a General Partner pursuant to Section 13.1(a)(ii) or is removed pursuant to Section 13.2; or (iv) notwithstanding clause (i) of this sentence, at any time that the General Partner voluntarily withdraws by giving at least 90 days' advance notice of its intention to withdraw to the Limited Partners, such withdrawal to take effect on the date specified in the notice, if at the time such notice is given one Person and its Affiliates (other than the General Partner and its Affiliates) own beneficially or of record or control at least 50% of the Outstanding Units. The withdrawal of the General Partner from the Partnership upon the occurrence of an Event of Withdrawal shall also constitute the withdrawal of the General Partner as general partner of the other Group Members. If the General Partner gives a notice of withdrawal pursuant to Section 13.1(a)(i), holders of at least a

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Unit Majority may, prior to the effective date of such withdrawal, elect a successor General Partner. The Person so elected as successor General Partner shall automatically become the successor general partner of the other Group Members. If, prior to the effective date of the General Partner's withdrawal, a successor is not selected by the Limited Partners as provided herein or the

Partnership does not receive a Withdrawal Opinion of Counsel, the Partnership shall be dissolved in accordance with Section 14.1. Any successor General Partner elected in accordance with the terms of this Section 13.1 shall be subject to the provisions of Section 12.3.

#### Section 13.2 Removal of the General Partner.

The General Partner may be removed if such removal is approved by Limited Partners holding at least two-thirds of the Outstanding Units, voting together

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as a single class (excluding those Units held by the General Partner and its

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Affiliates). Any such action by such Limited Partners for removal of the General Partner must also provide for the election of a successor General Partner by Limited Partners holding at least a majority of the Outstanding Units (excluding for purposes of such determination Units owned by the General Partner and its Affiliates). Such removal shall be effective immediately following the admission of a successor General Partner pursuant to Article XII. The removal of the General Partner shall also automatically constitute the removal of the General Partner as general partner of the other Group Members. If a person is elected as a successor General Partner in accordance with the terms of this Section 13.2, such person shall, upon admission pursuant to Article XII, automatically become the successor general partner of the other Group Members. The right of the Limited Partners holding Outstanding Units to remove the General Partner shall not exist or be exercised unless the Partnership has received an opinion opining as to the matters covered by a Withdrawal Opinion of Counsel. Any successor General Partner elected in accordance with the terms of this Section 13.2 shall be subject to the provisions of Section 12.3.

#### Section 13.3 Interest of Departing Partner and Successor General Partner.

(a) In the event of (i) withdrawal of the General Partner under circumstances where such withdrawal does not violate this Agreement or (ii) removal of the General Partner by the Limited Partners under circumstances where Cause does not exist, if a successor General Partner is elected in accordance with the terms of Section 13.1 or 13.2, the Departing Partner shall have the option exercisable prior to the effective date of the departure of such Departing Partner to require its successor to purchase its Partnership Interest as a general partner in the Partnership (which is represented by the General Partner

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Units) and its partnership interest as the general partner in the other Group

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Members (collectively, the "Combined Interest") in exchange for an amount in cash equal to the fair market value of such Combined Interest, such amount to be determined and payable as of the effective date of its departure. If the General Partner is removed by the Limited Partners under circumstances where Cause exists or if the General Partner withdraws under circumstances where such withdrawal violates this agreement, and if a successor General Partner is elected in accordance with the terms of Section 13.1 or 13.2, such successor shall have the option, exercisable prior to the effective date of the departure of such Departing Partner, to purchase the Combined Interest of the Departing Partner for such fair market value of such Combined Interest. In either event, the Departing Partner shall be entitled to receive all reimbursements due such Departing Partner pursuant to Section 6.4, including any employee-related liabilities (including severance liabilities), incurred in connection with the termination of any employees employed by the General Partner for the benefit of the Partnership or the other Group Members.

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For purposes of this Section 13.3(a), the fair market value of the Departing Partner's Combined Interest shall be determined by agreement between the Departing Partner and its successor or, failing agreement within 30 days after the effective date of such Departing Partner's departure, by an independent investment banking firm or other independent expert selected by the Departing Partner and its successor, which, in turn, may rely on other experts, and the determination of which shall be conclusive as to such matter. If such parties cannot agree upon one independent investment banking firm or other independent expert within 45 days after the effective date of such departure, then the Departing Partner shall designate an independent investment banking firm or other independent expert, the Departing Partner's successor shall designate an independent investment banking firm or other independent expert, and such firms or experts shall mutually select a third independent investment banking firm or

independent expert, which shall determine the fair market value of the Combined Interest. In making its determination, such independent investment banking firm or other independent expert shall consider the then current trading price of Units on any National Securities Exchange on which Units are then listed, the value of the Partnership's assets, the rights and obligations of the General Partner and other factors it may deem relevant.

(b) If the Combined Interest is not purchased in the manner set forth in Section 13.3(a), the Departing Partner shall become a Limited Partner and the Combined Interest shall be converted into Common Units pursuant to a valuation made by an investment banking firm or other independent expert selected pursuant to Section 13.3(a), without reduction in such Partnership Interest (but subject to proportionate dilution by reason of the admission of its successor). Any successor General Partner shall indemnify the Departing Partner as to all debts and liabilities of the Partnership arising on or after the date on which the Departing Partner becomes a Limited Partner. For purposes of this Agreement, conversion of the General Partner's Combined Interest to Common Units will be characterized as if the General Partner contributed its Combined Interest to the Partnership in exchange for the newly issued Common Units. For

purposes of this Section 13.3(b), in the event that the Subordination Period

has expired, the Combined Interest shall be converted into Class A Common

Units.

(c) If a successor General Partner is elected in accordance with the terms of Section 13.1 or 13.2 and the option described in Section 13.3(a) is not exercised by the party entitled to do so, the successor General Partner shall, at the effective date of its admission to the Partnership, contribute to the Partnership cash in an amount equal to [ ]1.01% of the Net Agreed Value of the Partnership's assets the fair market value of the General Partner Units[ / ] on such date. In such event, such successor General Partner shall, subject to the following sentence, be entitled to such Percentage Interest of all Partnership allocations and distributions and any other allocations and distributions to which the Departing Partner was entitled. [ ]In addition, such successor General Partner shall cause this Agreement to be amended to reflect that, from and after the date of such successor General Partner's admission, the successor General Partner's interest in all Partnership distributions and allocations shall be 1%, and that of the holders of Outstanding Unit shall be 99%.[ / ]

Section 13.4 Withdrawal of Limited Partners.

No Limited Partner shall have any right to withdraw from the Partnership; provided, however, that when a transferee of a Limited Partner's Units becomes a Record Holder, such transferring Limited Partner shall cease to be a Limited Partner with respect to the Units so transferred.

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#### ARTICLE XIV

#### DISSOLUTION AND LIQUIDATION

Section 14.1 Dissolution.

The Partnership shall not be dissolved by the admission of Substituted Limited Partners or Additional Limited Partners or by the admission of a successor General Partner in accordance with the terms of this Agreement. Upon the removal or withdrawal of the General Partner, if a successor General Partner is elected pursuant to Section 13.1 or 13.2, the Partnership shall not be dissolved and such successor General Partner shall continue the business of the Partnership. The Partnership shall dissolve, and (subject to Section 14.2) its affairs shall be wound up, upon:

(a) the expiration of its term as provided in Section 1.5;

(b) an Event of Withdrawal of the General Partner as provided in Section 13.1(a) (other than Section 13.1(a)(ii)), unless a successor is elected and an Opinion of Counsel is received as provided in Section 13.1(b) or 13.2 and such successor is admitted to the Partnership pursuant to Section 12.3;

(c) an election to dissolve the Partnership by the General Partner that



is approved by holders of at least a Unit Majority;

(d) entry of a decree of judicial dissolution of the Partnership pursuant to the provisions of the Delaware Act; or

(e) the sale of all or substantially all of the assets and properties of the Partnership Group.

Section 14.2 Continuation of the Business of the Partnership After Dissolution.

Upon (a) dissolution of the Partnership following an Event of Withdrawal caused by the withdrawal or removal of the General Partner as provided in Section 13.1(a)(i) or (iii) and the failure of the Partners to select a successor to such Departing Partner pursuant to Section 13.1 or 13.2, then within 90 days thereafter, or (b) dissolution of the Partnership upon an event constituting an Event of Withdrawal as defined in Section 13.1(a)(iv), (v) or (vi), then within 180 days thereafter, holders of at least a majority of the Outstanding Units (excluding for purposes of such determination any Units held by the General Partner or its Affiliates) may elect to reconstitute the Partnership and continue its business on the same terms and conditions set forth in this Agreement by forming a new limited partnership on terms identical to those set forth in this Agreement and having as the successor general partner a Person approved by holders of at least a majority of the Outstanding Units (excluding for purposes of such determination any Units held by the General Partner or its Affiliates). Unless such an election is made within the applicable time period as set forth above, the Partnership shall conduct only activities necessary to wind up its affairs. If such an election is so made, then:

(i) the reconstituted Partnership shall continue until the end of the term set forth in Section 1.5 unless earlier dissolved in accordance with this Article XIV;

(ii) if the successor General Partner is not the former General Partner, then the interest of the former General Partner shall be dealt with in the manner provided in Section 13.3(b); and

(iii) all necessary steps shall be taken to cancel this Agreement and the Certificate of Limited Partnership and to enter into and, as necessary, to file a new partnership agreement and

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certificate of limited partnership, and the successor general partner may for this purpose exercise the powers of attorney granted the General Partner pursuant to Section 1.4; provided, however, that the right of holders of at least a majority of Outstanding Units to approve a successor General Partner and to reconstitute and to continue the business of the Partnership shall not exist and may not be exercised unless the Partnership has received an Opinion of Counsel that (x) the exercise of the right would not result in the loss of limited liability of any Limited Partner and (y) neither the Partnership, the reconstituted limited partnership nor any other Group Member would be treated as an association taxable as a corporation or otherwise be taxable as an entity for federal income tax purposes upon the exercise of such right to continue.

Section 14.3 Liquidator.

Upon dissolution of the Partnership, unless the Partnership is continued under an election to reconstitute and continue the Partnership pursuant to Section 14.2, the General Partner, or in the event the dissolution is the result of an Event of Withdrawal, a liquidator or liquidating committee approved by holders of at least a majority of the Outstanding Units

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representing Limited Partner Interests, shall be the Liquidator. The Liquidator  
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(if other than the General Partner) shall be entitled to receive such compensation for its services as may be approved by holders of at least a majority of the Outstanding Units representing Limited Partner Interests. The  
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Liquidator shall agree not to resign at any time without 15 days' prior notice and (if other than the General Partner) may be removed at any time, with or without cause, by notice of removal approved by holders of at least a majority of the Outstanding Units representing Limited Partner Interests. Upon

dissolution, removal or resignation of the Liquidator, a successor and substitute Liquidator (who shall have and succeed to all rights, powers and duties of the original Liquidator) shall within 30 days thereafter be approved by holders of at least a majority of the Outstanding Units representing Limited

Partner Interests. The right to approve a successor or substitute Liquidator in

the manner provided herein shall be deemed to refer also to any such successor or substitute Liquidator approved in the manner herein provided. Except as expressly provided in this Article XIV, the Liquidator approved in the manner provided herein shall have and may exercise, without further authorization or consent of any of the parties hereto, all of the powers conferred upon the General Partner under the terms of this Agreement (but subject to all of the applicable limitations, contractual and otherwise, upon the exercise of such powers, other than the limitation on sale set forth in Section 6.3(b)) to the extent necessary or desirable in the good faith judgment of the Liquidator to carry out the duties and functions of the Liquidator hereunder for and during such period of time as shall be reasonably required in the good faith judgment of the Liquidator to complete the winding up and liquidation of the Partnership as provided for herein.

#### Section 14.4 Liquidation.

The Liquidator shall proceed to dispose of the assets of the Partnership, discharge its liabilities, and otherwise wind up its affairs in such manner and over such period as the Liquidator determines to be in the best interest of the Partners, subject to the following:

(a) Disposition of Assets. The assets may be disposed of by public or private sale or by distribution in kind to one or more Partners on such terms as the Liquidator and such Partner or Partners may agree. If any property is distributed in kind, the Partner receiving the property

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shall be deemed for purposes of Section 14.4(c) to have received cash equal to its fair market value; and contemporaneously therewith, appropriate cash distributions must be made to the other Partners. For purposes of computing Net [Liquidation] Termination Gain, gain or loss on distributed property

shall be recognized as if such property had been sold for its fair market value.

(b) Discharge of Liabilities. Liabilities of the Partnership include amounts owed to Partners otherwise in respect of their distribution rights under Article V. With respect to any liability that is contingent or is otherwise not yet due and payable, the Liquidator shall either settle such claim for such amount as it thinks appropriate or establish a reserve of cash or other assets to provide for its payment. When paid, any unused portion of the reserve shall be distributed as additional liquidation proceeds.

(c) Liquidation Distributions. All property and all cash in excess of that required to discharge liabilities as provided in Section 14.4(b) shall be distributed to the Partners in accordance with, and to the extent of, the positive balances in their respective Capital Accounts, as determined after taking into account all Capital Account adjustments (other than those made by reason of this clause) for the taxable year of the Partnership during which the liquidation of the Partnership occurs (with such date of occurrence being determined pursuant to Treasury Regulation Section 1.704-1(b)(2)(ii)(g)), and such distribution shall be made by the end of such taxable year (or, if later, within 90 days after said date of such occurrence).

#### Section 14.5 Cancellation of Certificate of Limited Partnership.

Upon the completion of the distribution of Partnership cash and property as provided in Sections 14.3 and 14.4 in connection with the liquidation of the Partnership, the Partnership shall be terminated and the Certificate of Limited Partnership and all qualifications of the Partnership as a foreign limited partnership in jurisdictions other than the State of Delaware shall be canceled and such other actions as may be necessary to terminate the Partnership shall be taken.

Section 14.6 Return of Contributions.

The General Partner shall not be personally liable for, and shall have no obligation to contribute or loan any monies or property to the Partnership to enable it to effectuate, the return of the Capital Contributions of the Limited Partners, or any portion thereof, it being expressly understood that any such return shall be made solely from Partnership assets.

Section 14.7 Waiver of Partition.

[]Each[] To the maximum extent permitted by law, each Partner hereby waives any right to partition of the Partnership property.

Section 14.8 Capital Account Restoration.

No Limited Partner shall have any obligation to restore any negative balance in its Capital Account upon liquidation of the Partnership. The General Partner shall be obligated to restore any negative balance in its Capital Account upon liquidation of its interest in the Partnership by the end of the taxable year of the Partnership during which such liquidation occurs, or, if later, within 90 days after the date of such liquidation.

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ARTICLE XV

AMENDMENT OF PARTNERSHIP AGREEMENT; MEETINGS; RECORD DATE

Section 15.1 Amendment to be Adopted Solely by General Partner.

Each Limited Partner agrees that the General Partner (pursuant to its powers of attorney from the Limited Partners and Assignees), without the approval of any Limited Partner or Assignee, may amend any provision of this Agreement and execute, swear to, acknowledge, deliver, file and record whatever documents may be required in connection therewith, to reflect:

(a) a change in the name of the Partnership, the location of the principal place of business of the Partnership, the registered agent of the Partnership or the registered office of the Partnership;

(b) admission, substitution, withdrawal or removal of Partners in accordance with this Agreement;

(c) a change that, in the sole discretion of the General Partner, is necessary or advisable to qualify or continue the qualification of the Partnership as a limited partnership or a partnership in which the limited partners have limited liability under the laws of any state or to ensure that the Partnership and the Operating Partnership will not be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes;

(d) a change that, in the sole discretion of the General Partner, (i) does not adversely affect the Limited Partners in any material respect, (ii) is necessary or advisable to (A) satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state agency or judicial authority or contained in any federal or state statute (including the Delaware Act) or (B) facilitate the trading of the Units (including the division of Outstanding Units into different classes to facilitate uniformity of tax consequences within such classes of Units) or comply with any rule, regulation, guideline or requirement of any National Securities Exchange on which the Units are or will be listed for trading, compliance with any of which the General Partner determines in its sole discretion to be in the best interests of the Partnership and the Limited Partners, (iii) is necessary or advisable in connection with action taken by the General Partner pursuant to Section 4.8, or (iv) is required to effect the intent of the provisions of this Agreement or is otherwise contemplated by this Agreement;

(e) a change in the fiscal year and or taxable year of the Partnership and any changes that, in the sole discretion of the General Partner, are necessary or advisable as a result of a change in the fiscal year and or

taxable year of the Partnership including, if the General Partner shall so determine, a change in the definition of "Quarter" and the dates on which distributions are to be made by the Partnership;

(f) an amendment that is necessary, in the Opinion of Counsel, to prevent the Partnership or the General Partner or its directors or officers from in any manner being subjected to the provisions of the Investment Company Act of 1940, as amended, the Investment Advisers Act of 1940, as amended, or "plan asset" regulations adopted under the Employee Retirement Income Security Act of 1974, as amended, regardless of whether such are substantially similar to plan asset regulations currently applied or proposed by the United States Department of Labor;

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(g) subject to the terms of Section 4.4, an amendment that, in the sole discretion of the General Partner, is necessary or advisable in connection with the authorization of issuance of any class or series of Partnership Securities pursuant to Section 4.4;

(h) any amendment expressly permitted in this Agreement to be made by the General Partner acting alone;

(i) an amendment effected, necessitated or contemplated by a Merger Agreement approved in accordance with Section 16.3;

(j) an amendment that, in the sole discretion of the General Partner, is necessary or advisable to reflect, account for and deal with appropriately the formation by the Partnership of, or investment by the Partnership in, any corporation, partnership, joint venture, limited liability company or other entity other than the Operating Partnership, in connection with the conduct by the Partnership of activities permitted by the terms of Section 3.1; or

(k) any other amendments substantially similar to the foregoing.

#### Section 15.2 Amendment Procedures.

Except as provided in Sections 15.1 and 15.3, all amendments to this Agreement shall be made in accordance with the following requirements. Amendments to this Agreement may be proposed only by or with the consent of the General Partner. A proposed amendment shall be effective upon its approval by the holders of at least a Unit Majority, unless a greater or different percentage is required under this Agreement or by Delaware law. Each proposed amendment that requires the approval of the holders of a specified percentage of Outstanding Units shall be set forth in a writing that contains the text of the proposed amendment. If such an amendment is proposed, the General Partner shall seek the written approval of the requisite percentage of Outstanding Units or call a meeting of the Limited Partners to consider and vote on such proposed amendment. The General Partner shall notify all Record Holders upon final adoption of any such proposed amendments.

#### Section 15.3 Amendment Requirements.

(a) Notwithstanding the provisions of Sections 15.1 and 15.2, no provision of this Agreement that establishes a percentage of Outstanding Units required to take any action shall be amended, altered, changed, repealed or rescinded in any respect that would have either (i) the effect of reducing such voting percentage or (ii) more than an immaterial effect on a Unitholder unless such amendment is approved by the written consent or the affirmative vote of holders of Outstanding Units whose aggregate Outstanding Units constitute not less than the voting requirement sought to be reduced.

(b) Notwithstanding the provisions of Sections 15.1 and 15.2, no amendment to this Agreement may (i) enlarge the obligations of any Limited Partner without its consent, unless such shall be deemed to have occurred as a result of an amendment approved pursuant to Section 15.3(c), (ii) enlarge the obligations of, restrict in any way any action by or rights of, or reduce in any way the amounts distributable, reimbursable or otherwise payable to, the General Partner without its consent, which may be given or withheld in its sole discretion, (iii) change Section 14.1(a) or (c), or (iv) change the term of the Partnership or, except as set forth in Section 14.1(c), give any Person the right to dissolve the Partnership.

(c) Except as otherwise provided and without limitation of the General Partner's authority to adopt amendments to this Agreement as contemplated in Section 15.1, any amendment that would have a material adverse effect on the rights or preferences of any class of Outstanding Units in relation to other classes of Units must be approved by the holders of not less than a majority of the Outstanding Units of the classes affected (excluding, during the

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Subordination Period, Common Units owned by the General Partner and its Affiliates).

(d) Notwithstanding any other provision of this Agreement, except for amendments pursuant to Section 6.3 or 15.1 and except as otherwise provided by Section 16.3(b), no amendments shall become effective without the approval of the holders of at least 90% of the Outstanding Units unless the Partnership obtains an Opinion of Counsel to the effect that such amendment will not affect the limited liability of any Limited Partner or any limited partner of the other Group Members under applicable law.

(e) This Section 15.3 shall only be amended with the approval of the holders of at least 90% of the Outstanding Units.

#### Section 15.4 Meetings.

All acts of Limited Partners to be taken pursuant to this Agreement shall be taken in the manner provided in this Article XV. Meetings of the Limited Partners may be called by the General Partner or by Limited Partners owning 20% or more of the Outstanding Units of the class or classes for which a meeting is proposed. Limited Partners shall call a meeting by delivering to the General Partner one or more requests in writing stating that the signing Limited Partners wish to call a meeting and indicating the general or specific purposes for which the meeting is to be called. Within 60 days after receipt of such a call from Limited Partners or within such greater time as may be reasonably necessary for the Partnership to comply with any statutes, rules, regulations, listing agreements or similar requirements governing the holding of a meeting or the solicitation of proxies for use at such a meeting, the General Partner shall send a notice of the meeting to the Limited Partners either directly or indirectly through the Transfer Agent. A meeting shall be held at a time and place determined by the General Partner on a date not less than 10 days nor more than 60 days after the mailing of notice of the meeting. [ ] Limited Partners shall not vote on matters that would cause the Limited Partners to be deemed to be taking part in the management and control of the business and affairs of the Partnership so as to jeopardize the Limited Partners' limited liability under the Delaware Act or the law of any other state in which the Partnership is qualified to do business. [ / ]

#### Section 15.5 Notice of a Meeting.

Notice of a meeting called pursuant to Section 15.4 shall be given to the Record Holders in writing by mail or other means of written communication in accordance with Section 18.1. The notice shall be deemed to have been given at the time when deposited in the mail or sent by other means of written communication.

#### Section 15.6 Record Date.

For purposes of determining the Limited Partners entitled to notice of or to vote at a meeting of the Limited Partners or to give approvals without a meeting as provided in Section 15.11, the General Partner may set a Record Date, which shall not be less than 10 nor more than 60 days

before (a) the date of the meeting (unless such requirement conflicts with any rule, regulation, guideline or requirement of any National Securities Exchange on which the Units are listed for trading, in which case the rule, regulation, guideline or requirement of such exchange shall govern) or (b) in the event that approvals are sought without a meeting, the date by which Limited Partners are requested in writing by the General Partner to give such approvals.

#### Section 15.7 Adjournment.

When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting and a new Record Date need not be fixed, if the time and place thereof are announced at the meeting at which the adjournment is taken, unless such adjournment shall be for more than 45 days. At the adjourned meeting, the Partnership may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 45 days or if a new Record Date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given in accordance with this Article XV.

#### Section 15.8 Waiver of Notice; Approval of Meeting; Approval of Minutes.

The transactions of any meeting of Limited Partners, however called and noticed, and whenever held, shall be as valid as if occurred at a meeting duly held after regular call and notice, if a quorum is present either in person or by proxy, and if, either before or after the meeting, Limited Partners representing such quorum who were present in person or by proxy and entitled to vote, sign a written waiver of notice or an approval of the holding of the meeting or an approval of the minutes thereof. All waivers and approvals shall be filed with the Partnership records or made a part of the minutes of the meeting. Attendance of a Limited Partner at a meeting shall constitute a waiver of notice of the meeting, except when the Limited Partner does not approve, at the beginning of the meeting, of the transaction of any business because the meeting is not lawfully called or convened; and except that attendance at a meeting is not a waiver of any right to disapprove the consideration of matters required to be included in the notice of the meeting, but not so included, if the disapproval is expressly made at the meeting.

#### Section 15.9 Quorum.

The holders of a majority of the Outstanding Units of the class or classes for which a meeting has been called represented in person or by proxy shall constitute a quorum at a meeting of Limited Partners of such class or classes unless any such action by the Limited Partners requires approval by holders of a greater percentage of such Units, in which case the quorum shall be such greater percentage (excluding, in either case, if such are to be excluded from the vote, Outstanding Units owned by the General Partner and its Affiliates). At any meeting of the Limited Partners duly called and held in accordance with this Agreement at which a quorum is present, the act of Limited Partners holding Outstanding Units that in the aggregate represent a majority of the Outstanding Units entitled to vote and be present in person or by proxy at such meeting shall be deemed to constitute the act of all Limited Partners, unless a greater or different percentage is required with respect to such action under the provisions of this Agreement, in which case the act of the Limited Partners holding Outstanding Units that in the aggregate represent at least such greater or different percentage shall be required. The Limited Partners present at a duly called or held meeting at which a quorum is present

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may continue to transact business until adjournment, notwithstanding the withdrawal of enough Limited Partners to leave less than a quorum, if any action taken (other than adjournment) is approved by the required percentage of Outstanding Units specified in this Agreement. In the absence of a quorum any meeting of Limited Partners may be adjourned from time to time by the affirmative vote of holders of at least a majority of the Outstanding Units represented either in person or by proxy, but no other business may be transacted, except as provided in Section 15.7.

#### Section 15.10 Conduct of Meeting.

The General Partner shall have full power and authority concerning the manner of conducting any meeting of the Limited Partners or solicitation of approvals in writing, including the determination of Persons entitled to vote, the existence of a quorum, the satisfaction of the requirements of Section 15.4, the conduct of voting, the validity and effect of any proxies and the determination of any controversies, votes or challenges arising in connection with or during the meeting or voting. The General Partner shall designate a Person to serve as chairman of any meeting and shall further designate a Person to take the minutes of any meeting. All minutes shall be kept with the records of the Partnership maintained by the General Partner. The General Partner may make such other regulations consistent with the applicable law and this Agreement as it may deem advisable concerning the conduct of any meeting of the Limited Partners or solicitation of approvals in writing, including regulations in regard to the appointment of proxies, the appointment and duties of

inspectors of votes and approvals, the submission and examination of proxies and other evidence of the right to vote, and the revocation of approvals in writing.

Section 15.11 Action Without a Meeting.

Any action that may be taken at a meeting of the Limited Partners may be taken without a meeting if an approval in writing setting forth the action so taken is signed by Limited Partners owning not less than the minimum percentage of the Outstanding Units that would be necessary to authorize or take such action at a meeting at which all the Limited Partners were present and voted. Prompt notice of the taking of action without a meeting shall be given to the Limited Partners who have not approved in writing. The General Partner may specify that any written ballot submitted to Limited Partners for the purpose of taking any action without a meeting shall be returned to the Partnership within the time period, which shall be not less than 20 days, specified by the General Partner. If a ballot returned to the Partnership does not vote all of the Units held by the Limited Partner, the Partnership shall be deemed to have failed to receive a ballot for the Units that were not voted. If approval of the taking of any action by the Limited Partners is solicited by any Person other than by or on behalf of the General Partner, the written approvals shall have no force and effect unless and until (a) they are deposited with the Partnership in care of the General Partner, (b) approvals sufficient to take the action proposed are dated as of a date not more than 90 days prior to the date sufficient approvals are deposited with the Partnership and (c) an Opinion of Counsel is delivered to the General Partner to the effect that the exercise of such right and the action proposed to be taken with respect to any particular matter (i) will not cause the Limited Partners to be deemed to be taking part in the management and control of the business and affairs of the Partnership so as to jeopardize the Limited Partners' limited liability, and (ii) is otherwise permissible under the state statutes then governing the rights, duties and liabilities of the Partnership and the Partners.

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Section 15.12 Voting and Other Rights.

(a) Only those Record Holders of the Units on the Record Date set pursuant to Section 15.6 (and also subject to the limitations contained in the definition of "Outstanding") shall be entitled to notice of, and to vote at, a meeting of Limited Partners or to act with respect to matters as to which the holders of the Outstanding Units have the right to vote or to act. All references in this Agreement to votes of, or other acts that may be taken by, the Outstanding Units shall be deemed to be references to the votes or acts of the Record Holders of such Outstanding Units.

(b) With respect to Units that are held for a Person's account by another Person (such as a broker, dealer, bank, trust company or clearing corporation, or an agent of any of the foregoing), in whose name such Units are registered, such other Person shall, in exercising the voting rights in respect of such Units on any matter, and unless the arrangement between such Persons provides otherwise, vote such Units in favor of, and at the direction of, the Person who is the beneficial owner, and the Partnership shall be entitled to assume it is so acting without further inquiry. The provisions of this Section 15.12(b) (as well as all other provisions of this Agreement) are subject to the provisions of Section 10.4.

ARTICLE XVI

Merger MERGER

Section 16.1 Authority.

The Partnership may merge or consolidate with one or more corporations, business trusts or associations, real estate investment trusts, common law trusts or unincorporated businesses, including a general partnership [ ]or[ ], limited partnership or limited liability company, formed under the laws of the

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State of Delaware or any other state of the United States of America, pursuant to a written agreement of merger or consolidation ("Merger Agreement") in accordance with this Article XVI.

Section 16.2 Procedure for Merger or Consolidation.

Merger or consolidation of the Partnership pursuant to this Article XVI requires the prior approval of the General Partner. If the General Partner shall determine, in the exercise of its sole discretion, to consent to the merger or consolidation, the General Partner shall approve the Merger Agreement, which shall set forth:

(a) The names and jurisdictions of formation or organization of each of the business entities proposing to merge or consolidate;

(b) The name and jurisdictions of formation or organization of the business entity that is to survive the proposed merger or consolidation (the "Surviving Business Entity");

(c) The terms and conditions of the proposed merger or consolidation;

(d) The manner and basis of exchanging or converting the equity securities of each constituent business entity for, or into, cash, property or general or limited partner interests, rights, securities or obligations of the Surviving Business Entity; and (i) if any general or limited partner interests, securities or rights of any constituent business entity are not to be exchanged

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or converted solely for, or into, cash, property or general or limited partner interests, rights, securities or obligations of the Surviving Business Entity, the cash, property or general or limited partner interests, rights, securities or obligations of any limited partnership, corporation, trust or other entity (other than the Surviving Business Entity) which the holders of such general or limited partner interests, securities or rights are to receive in exchange for, or upon conversion of their general or limited partner interests, securities or rights, and (ii) in the case of securities represented by certificates, upon the surrender of such certificates, which cash, property or general or limited partner interests, rights, securities or obligations of the Surviving Business Entity or any general or limited partnership, corporation, trust or other entity (other than the Surviving Business Entity), or evidences thereof, are to be delivered;

(e) A statement of any changes in the constituent documents or the adoption of new constituent documents (the articles or certificate of incorporation, articles of trust, declaration of trust, certificate or agreement of limited partnership, certificate of limited liability company

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or other similar charter or governing document) of the Surviving Business Entity to be effected by such merger or consolidation;

(f) The effective time of the merger, which may be the date of the filing of the certificate of merger pursuant to Section 16.4 or a later date specified in or determinable in accordance with the Merger Agreement (provided that if the effective time of the merger is to be later than the date of the filing of the certificate of merger, the effective time shall be fixed no later than the time of the filing of the certificate of merger and stated therein); and

(g) Such other provisions with respect to the proposed merger or consolidation as are deemed necessary or appropriate by the General Partner.

#### Section 16.3 Approval by Limited Partners of Merger or Consolidation.

(a) The General Partner, upon its approval of the Merger Agreement, shall direct that the Merger Agreement be submitted to a vote of Limited Partners, whether at a meeting or by written consent, in either case in accordance with the requirements of Article XV. A copy or a summary of the Merger Agreement shall be included in or enclosed with the notice of a meeting or the written consent.

(b) The Merger Agreement shall be approved upon receiving the affirmative vote or consent of the holders of at least a Unit Majority unless the Merger Agreement contains any provision that, if contained in an amendment to this Agreement, the provisions of this Agreement or the Delaware Act would require the vote or consent of a greater percentage of the Outstanding Units or of any



class of Limited Partners, in which case such greater percentage vote or consent shall be required for approval of the Merger Agreement.

(c) After such approval by vote or consent of the Limited Partners, and at any time prior to the filing of the certificate of merger pursuant to Section 16.4, the merger or consolidation may be abandoned pursuant to provisions therefor, if any, set forth in the Merger Agreement.

#### Section 16.4 Certificate of Merger.

Upon the required approval by the General Partner and the Limited Partners of a Merger Agreement, a certificate of merger shall be executed and filed with the Secretary of State of the State of Delaware in conformity with the requirements of the Delaware Act.

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#### Section 16.5 Effect of Merger.

(a) At the effective time of the certificate of merger:

(i) all of the rights, privileges and powers of each of the business entities that has merged or consolidated, and all property, real, personal and mixed, and all debts due to any of those business entities and all other things and causes of action belonging to each of those business entities shall be vested in the Surviving Business Entity and after the merger or consolidation shall be the property of the Surviving Business Entity to the extent they were of each constituent business entity;

(ii) the title to any real property vested by deed or otherwise in any of those constituent business entities shall not revert and is not in any way impaired because of the merger or consolidation;

(iii) all rights of creditors and all liens on or security interests in property of any of those constituent business entities shall be preserved unimpaired; and

(iv) all debts, liabilities and duties of those constituent business entities shall attach to the Surviving Business Entity, and may be enforced against it to the same extent as if the debts, liabilities and duties had been incurred or contracted by it.

(b) A merger or consolidation effected pursuant to this Article shall not be deemed to result in a transfer or assignment of assets or liabilities from one entity to another having occurred.

### ARTICLE XVII

#### RIGHT TO ACQUIRE UNITS

##### Section 17.1 Right to Acquire Units.

(a) Notwithstanding any other provision of this Agreement, if at any time not more than 20% of the total Units of any class then Outstanding are held by Persons other than the General Partner and its Affiliates, the General Partner shall then have the right, which right it may assign and transfer to the Partnership or any Affiliate of the General Partner, exercisable in its sole discretion, to purchase all, but not less than all, of the Units of such class then Outstanding held by Persons other than the General Partner and its Affiliates, at the greater of (x) the Current Market Price as of the date three days prior to the date that the notice described in Section [17.1(b)] 17.1(c)

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is mailed, and (y) the highest cash price paid by the General Partner or any of its Affiliates for any such Unit purchased during the 90-day period preceding the date that the notice described in Section [17.1(b)] is mailed. As used in this Agreement, (i) "Current Market Price" as of any date of any class of Units listed or admitted to trading on any National Securities Exchange means the average of the daily Closing Prices (as hereinafter defined) per Unit of such class for the 20 consecutive Trading Days (as hereinafter defined) immediately prior to such date; (ii) "Closing Price" for any day means the last sale price on such day, regular way, or in case no such sale takes place on such day, the average of the closing bid and asked prices on such day, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the principal National

Securities Exchange (other than the Nasdaq Stock Market) on which the Units of such class are listed or admitted to trading or, if the Units of such class are not listed or admitted[//]

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[//]to trading on any National Securities Exchange (other than the Nasdaq Stock Market), the last quoted price on such day or, if not so quoted, the average of the high bid and low asked prices on such day in the over-the-counter market, as reported by the Nasdaq Stock Market or such other system then in use, or, if on any such day the Units of such class are not quoted by any such organization, the average of the closing bid and asked prices on such day as furnished by a professional market maker making a market in the Units of such class selected by the Board of Directors of the General Partner, or if on any such day no market maker is making a market in the Units of such class, the fair value of such Units on such day as determined reasonably and in good faith by the Board of Directors of the General Partner; and (iii) "Trading Day" means a day on which the principal National Securities Exchange on which the Units of any class are listed or admitted to trading is open for the transaction of business or, if Units of a class are not listed or admitted to trading on any National Securities Exchange, a day on which banking institutions in New York City generally are open.[//] 17.1(c) is mailed.

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(b) Notwithstanding any other provision of this Agreement, if at any time after the expiration of the Subordination Period and the earlier to occur of -----  
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(A) the fifth anniversary of the Effective Time or (B) the issuance of 909,000 -----  
-----  
Senior Subordinated Units and Class B Common Units in the aggregate pursuant to -----  
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Section 4.6, the Partnership acquires, through purchase or exchange, in a -----  
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twelve-month period, 66 2/3% or more of the total Class B Common Units, the -----  
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Partnership shall then have the right, which it may not assign or transfer, -----  
-----  
exercisable in its sole discretion, to purchase all, but not less than all, of -----  
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the remaining Class B Common Units then Outstanding during the following -----  
-----  
twelve-month period, at the greater of (x) the Current Market Price as of the -----  
-----  
date three days prior to the date that the notice described in Section 17(c) is -----  
-----  
mailed, and (y) the highest cash price paid by the Partnership for any such -----  
-----  
Unit purchased during the 90-day period preceding the date that the notice -----  
-----  
described in Section 17(c) is mailed.  
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(c) If the General Partner, any Affiliate of the General Partner or the Partnership elects to exercise the right to purchase Units granted pursuant to Section 17.1(a) or the Partnership elects to exercise the right granted -----  
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pursuant to Section 17(b) to purchase Class B Common Units, the General Partner -----  
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or the Partnership, as the case may be, shall deliver to the Transfer Agent -----  
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notice of such election to purchase (the "Notice of Election to Purchase") and shall cause the Transfer Agent to mail a copy of such Notice of Election to Purchase to the Record Holders of such Units (as of a Record Date selected by -----  
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the General Partner) at least 10, but not more than 60, days prior to the Purchase Date. Such Notice of Election to Purchase shall also be published for a period of at least three consecutive days in at least two daily newspapers of general circulation printed in the English language and published in the Borough of Manhattan, New York. The Notice of Election to Purchase shall specify the Purchase Date and the price (determined in accordance with Section 17. 1(a)) at which Units will be purchased and state that the General Partner, its Affiliate or the Partnership, as the case may be, elects to purchase such Units, upon surrender of Certificates representing such Units in exchange for payment, at such office or offices of the Transfer Agent as the Transfer Agent

may specify, or as may be required by any National Securities Exchange on which the Units are listed or admitted to trading. Any such Notice of Election to Purchase mailed to a Record Holder of Units at his address as reflected in the records of the Transfer Agent shall be conclusively presumed to have been given regardless of whether the owner receives such notice. On or prior to the Purchase Date, the General Partner, its Affiliate or the Partnership, as the case may be, shall deposit with the

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Transfer Agent cash in an amount sufficient to pay the aggregate purchase price of all of the Units to be purchased in accordance with this Section 17.1. If the Notice of Election to Purchase shall have been duly given as aforesaid at least 10 days prior to the Purchase Date, and if on or prior to the Purchase Date the deposit described in the preceding sentence has been made for the benefit of the holders of Units subject to purchase as provided herein, then from and after the Purchase Date, notwithstanding that any Certificate shall not have been surrendered for purchase, all rights of the holders of such Units (including any rights pursuant to Articles IV, V and XIV) shall thereupon cease, except the right to receive the purchase price (determined in accordance with Section 17.1(a)) for Units therefor, without interest, upon surrender to the Transfer Agent of the Certificates representing such Units, and such Units shall thereupon be deemed to be transferred to the General Partner, its Affiliate or the Partnership, as the case may be, on the record books of the Transfer Agent and the Partnership, and the General Partner or any Affiliate of the General Partner, or the Partnership, as the case may be, shall be deemed to be the owner of all such Units from and after the Purchase Date and shall have all rights as the owner of such Units (including all rights as owner of such Units pursuant to Articles IV, V and XIV).

[ ](c)[ ](d) At any time from and after the Purchase Date, a holder of an

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Outstanding Unit subject to purchase as provided in this Section 17.1 may surrender his Certificate evidencing such Unit to the Transfer Agent in exchange for payment of the amount described in Section 17.1(a), therefor, without interest thereon.

#### ARTICLE XVIII

##### GENERAL PROVISIONS

###### Section 18.1 Addresses and Notices.

Any notice, demand, request, report or proxy materials required or permitted to be given or made to a Partner or Assignee under this Agreement shall be in writing and shall be deemed given or made when delivered in person or when sent by first class United States mail or by other means of written communication to the Partner or Assignee at the address described below. Any notice, payment or report to be given or made to a Partner or Assignee hereunder shall be deemed conclusively to have been given or made, and the obligation to give such notice or report or to make such payment shall be deemed conclusively to have been fully satisfied, upon sending of such notice, payment or report to the Record Holder of such Unit at his address as shown on the records of the Transfer Agent or as otherwise shown on the records of the Partnership, regardless of any claim of any Person who may have an interest in such Unit or the Partnership Interest of a General Partner by reason of any assignment or otherwise. An affidavit or certificate of making of any notice, payment or report in accordance with the provisions of this Section 18.1 executed by the General Partner, the Transfer Agent or the mailing organization shall be prima facie evidence of the giving or making of such notice, payment or report. If any notice, payment or report addressed to a Record Holder at the address of such Record Holder appearing on the books and records of the Transfer Agent or the Partnership is returned by the United States [ ]Post Office[ ] Postal Service

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marked to indicate that the United States Postal Service is unable to deliver it, such notice, payment or report and any subsequent notices, payments and reports shall be deemed to have been duly given or made without further mailing (until such time as such Record Holder or another Person notifies the Transfer Agent or the Partnership of a change in his address) if they are available for the Partner or Assignee at the

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principal office of the Partnership for a period of one year from the date of the giving or making of such notice, payment or report to the other Partners and Assignees. Any notice to the Partnership shall be deemed given if received by the General Partner at the principal office of the Partnership designated pursuant to Section 1.3. The General Partner may rely and shall be protected in relying on any notice or other document from a Partner, Assignee or other Person if believed by it to be genuine.

#### Section 18.2 References.

Except as specifically provided otherwise, references to "Articles" and "Sections" are to Articles and Sections of this Agreement.

#### Section 18.3 Pronouns and Plurals.

Whenever the context may require, any pronoun used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns, pronouns and verbs shall include the plural and vice versa.

#### Section 18.4 Further Action.

The parties shall execute and deliver all documents, provide all information and take or refrain from taking action as may be necessary or appropriate to achieve the purposes of this Agreement.

#### Section 18.5 Binding Effect.

This Agreement shall be binding upon and inure to the benefit of the parties hereto and their heirs, executors, administrators, successors, legal representatives and permitted assigns.

#### Section 18.6 Integration.

This Agreement constitutes the entire agreement among the parties hereto pertaining to the subject matter hereof and supersedes all prior agreements and understandings pertaining thereto.

#### Section 18.7 Creditors.

None of the provisions of this Agreement shall be for the benefit of, or shall be enforceable by, any creditor of the Partnership.

#### Section 18.8 Waiver.

No failure by any party to insist upon the strict performance of any covenant, duty, agreement or condition of this Agreement or to exercise any right or remedy consequent upon a breach thereof shall constitute waiver of any such breach of any other covenant, duty, agreement or condition.

#### Section 18.9 Counterparts.

This Agreement may be executed in counterparts, all of which together shall constitute an agreement binding on all the parties hereto, notwithstanding that all such parties are not signatories to the original or the same counterpart. Each party shall become bound by this Agreement immediately upon affixing its signature hereto or, in the case of a Person acquiring a Unit, upon accepting the certificate evidencing such Unit or executing and delivering a Transfer Application as herein described, independently of the signature of any other party.

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#### Section 18.10 Applicable Law.

This Agreement shall be construed in accordance with and governed by the laws of the State of Delaware, without regard to the principles of conflicts of law.

#### Section 18.11 Invalidity of Provisions.

If any provision of this Agreement is or becomes invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not be affected thereby.

#### Section 18.12 Consent of Partners.

Each Partner hereby expressly consents and agrees that, whenever in this Agreement it is specified that an action may be taken upon the affirmative vote or consent of less than all of the Partners, such action may be so taken upon the concurrence of less than all of the Partners and each Partner shall be bound by the results of such action.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

General Partner:

[ ]Star Gas Corporation[ / ]

By:  
William G. Powers, Jr., President

ORGANIZATIONAL LIMITED PARTNER:

[ ]By: [ / ]  
[ ]William G. Powers, Jr. [ / ]

[ ]APPENDIX B [ / ] Star Gas LLC  
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By:  
Name:  
Title:

Limited Partners:  
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All Limited Partners now and  
-----  
hereafter admitted as limited  
-----  
partners of the Partnership,  
-----  
pursuant to the Powers of Attorney  
-----  
now and hereafter executed in favor  
-----  
of, and granted and delivered to,  
-----  
the General Partner.  
-----

By: Star Gas LLC  
-----

General Partner, as attorney-in-fact  
-----  
for all Limited Partners pursuant to  
-----  
the Powers of Attorney granted  
-----  
pursuant to Section 1.4  
-----

By:  
---  
Name:  
-----  
Title:  
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Representing Limited Partner Interests  
STAR GAS PARTNERS, L.P.

No. Common Units

STAR GAS, LLC., a Delaware limited liability company, as the General Partner of STAR GAS PARTNERS, L.P., a Delaware limited partnership (the "Partnership"), hereby certifies that (the "Holder") is the registered owner of Common Units representing limited partner interests in the Partnership (the "Common Units") transferable on the books of the Partnership, in person or by duly authorized attorney, upon surrender of this Certificate properly endorsed and accompanied by a properly executed application for transfer of the Common Units represented by this Certificate. The rights, preferences and limitations of the Common Units are set forth in, and this Certificate and the Common Units represented hereby are issued and shall in all respects be subject to the terms and provisions of, the Amended and Restated Agreement of Limited Partnership of STAR GAS PARTNERS, L.P., as amended, supplemented or restated from time to time (the "Partnership Agreement"). Copies of the Partnership Agreement are on file at, and will be furnished without charge on delivery of written request to the Partnership at, the principal office of the Partnership located at 2187 Atlantic Street, Stamford, Connecticut 06912-0011. Capitalized terms used herein but not defined shall have the meaning given them in the Partnership Agreement.

The Holder, by accepting this Certificate, is deemed to have (i) requested admission as, and agreed to become, a Limited Partner and to have agreed to comply with and be bound by and to have executed the Partnership Agreement, (ii) represented and warranted that the Holder has all right, power and authority and, if an individual, the capacity necessary to enter into the Partnership Agreement, (iii) granted the powers of attorney provided for in the Partnership Agreement and (iv) made the waivers and given the consents and approvals contained in the Partnership Agreement.

This Certificate shall not be valid for any purpose unless it has been countersigned and registered by the Transfer Agent and Registrar.

Dated: Star Gas, LLC.,  
as General Partner

Countersigned and Registered by: By: \_\_\_\_\_  
President

as Transfer Agent and Registrar By: \_\_\_\_\_  
Secretary

By: \_\_\_\_\_  
Authorized Signature

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[Reverse of Certificate]

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this Certificate, shall be construed as follows according to applicable laws or regulations:

- |          |  |                                   |         |
|----------|--|-----------------------------------|---------|
| TEN COM- | as tenants in common   | UNIF GIFT MIN ACT-                |         |
| TEN ENT- | as tenants by the entireties   | Custodian                         |         |
| JT TEN-  | as joint tenants with right of survivorship and not as tenants in common | (Cust)                            | (Minor) |
|          |  | under Uniform Gifts to Minors Act |         |
|          |  | State                             |         |

Additional abbreviations, though not in the above list, may also be used.

ASSIGNMENT OF COMMON UNITS

in

STAR GAS PARTNERS, L.P.

IMPORTANT NOTICE REGARDING INVESTOR RESPONSIBILITIES

DUE TO TAX SHELTER STATUS OF STAR GAS PARTNERS, L.P.

You have acquired an interest in Star Gas Partners, L.P., 2187 Atlantic Street, Stamford, Connecticut 06912-0011, whose taxpayer identification number is 06-1437793. The Internal Revenue Service has issued Star Gas Partners, L.P. the following tax shelter registration number:

YOU MUST REPORT THIS REGISTRATION NUMBER TO THE INTERNAL REVENUE SERVICE IF YOU CLAIM ANY DEDUCTION, LOSS, CREDIT, OR OTHER TAX BENEFIT OR REPORT ANY INCOME BY REASON OF YOUR INVESTMENT IN STAR GAS PARTNERS, L.P.

You must report the registration number as well as the name and taxpayer identification number of Star Gas Partners, L.P. on Form 8271. FORM 8271 MUST BE ATTACHED TO THE RETURN ON WHICH YOU CLAIM THE DEDUCTION, LOSS, CREDIT, OR OTHER TAX BENEFIT OR REPORT ANY INCOME BY REASON OF YOUR INVESTMENT IN STAR GAS PARTNERS, L.P.

If you transfer your interest in Star Gas Partners, L.P. to another person, you are required by the Internal Revenue Service to keep a list containing (a) that person's name, address and taxpayer identification number, (b) the date on which you transferred the interest and (c) the name, address and tax shelter registration number of Star Gas Partners, L.P. If you do not want to keep such a list, you must (1) send the information specified above to the Partnership, which will keep the list for this tax shelter, and (2) give a copy of this notice to the person to whom you transfer your interest. Your failure to comply with any of the above-described responsibilities could result in the imposition of a penalty under Section 6707(b) or 6708(a) of the Internal Revenue Code of 1986, as amended, unless such failure is shown to be due to reasonable cause.

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ISSUANCE OF A REGISTRATION NUMBER DOES NOT INDICATE THAT THIS INVESTMENT OR THE CLAIMED TAX BENEFITS HAVE BEEN REVIEWED, EXAMINED, OR APPROVED BY THE INTERNAL REVENUE SERVICE.

FOR VALUE RECEIVED, hereby assigns, conveys, sells and transfers unto

(Please print or typewrite name and address of Assignee)

(Please insert Social Security or other identifying number of Assignee)

Common Units representing limited partner interests evidenced by this Certificate, subject to the Partnership Agreement, and does hereby irrevocably constitute and appoint as its attorney-in-fact with full power of substitution to transfer the same on the books of Star Gas Partners, L.P.

Date:

NOTE: The signature to any endorsement hereon must correspond with the name as written upon the face of this Certificate in every particular, without alteration, enlargement or change.

SIGNATURE(S) MUST BE GUARANTEED BY A MEMBER FIRM OF THE NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. OR BY A COMMERCIAL BANK OR TRUST COMPANY

(Signature)

(Signature)

SIGNATURE(S) GUARANTEED

No transfer of the Common Units evidenced hereby will be registered on the books of the Partnership, unless the Certificate evidencing the Common Units to be transferred is surrendered for registration or transfer and an Application for Transfer of Common Units has been executed by a transferee either (a) on the form set forth below or (b) on a separate application that the Partnership will furnish on request without charge. A transferor of the Common Units shall have no duty to the transferee with respect to execution of the transfer application in order for such transferee to obtain registration of the transfer of the Common Units.

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APPENDIX A

No transfer of the Common Units evidenced hereby will be registered on the books of the Partnership, unless the Certificate evidencing the Common Units to be transferred is surrendered for registration or transfer and an Application for Transfer of Common Units has been executed by a transferee either (a) on the form set forth below or (b) on a separate application that the Partnership will furnish on request without charge. A transferor of the Common Units shall have no duty to the transferee with respect to execution of the transfer application in order for such transferee to obtain registration of the transfer of the Common Units.

APPLICATION FOR TRANSFER OF COMMON UNITS

The undersigned ("Assignee") hereby applies for transfer to the name of the Assignee of the Common Units evidenced hereby.

The Assignee (a) requests admission as a Substituted Limited Partner and agrees to comply with and be bound by, and hereby executes, the Amended and

Restated Agreement of Limited Partnership of Star Gas Partners, L.P. [ ]the

"Partnership" [ / ], as amended, supplemented or restated to the date hereof (the "Partnership Agreement"), (b) represents and warrants that the Assignee has all right, power and authority and, if an individual, the capacity necessary to enter into the Partnership Agreement, (c) appoints the General Partner and, if a Liquidator shall be appointed, the Liquidator of the Partnership as the Assignee's attorney-in-fact to execute, swear to, acknowledge and file any document, including, without limitation, the Partnership Agreement and any amendment thereto and the Certificate of Limited Partnership of the Partnership and any amendment thereto, necessary or appropriate for the Assignee's admission as a Substituted Limited Partner and as a party to the Partnership Agreement, (d) gives the powers of attorney provided for in the Partnership Agreement and (e) makes the waivers and gives the consents and approvals contained in the Partnership Agreement. Capitalized terms not defined herein have the meanings assigned to such terms in the Partnership Agreement.

Date: \_\_\_\_\_

Signature of Assignee

Social Security or other identifying number of Assignee

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Name and Address of Assignee

Purchase Price including commissions, if any

Type of Entity (check one):

[ ] Individual [ ] Partnership [ ] Corporation [ ] Trust [ ] Other (specify) \_\_\_\_\_

Nationality (check one):



U.S. Citizen, Resident or Domestic Entity  Non--Foreign Corporation--  
Non-resident Alien  
 Foreign Corporation

If the U.S. Citizen, Resident or Domestic Entity box is checked, the following certification must be completed.

Under Section 1445(e) of the Internal Revenue Code of 1986, as amended (the "Code"), the Partnership must withhold tax with respect to certain transfers of property if a holder of an interest in the Partnership is a foreign person. To inform the Partnership that no withholding is required with respect to the undersigned interestholder's interest in it, the undersigned hereby certifies the following (or, if applicable, certifies the following on behalf of the interestholder).

Complete Either A or B:

A. Individual Interestholder

1. I am not a non-resident alien for purposes of U.S. income taxation.
2. My U.S. taxpayer identification number (Social Security Number) is
3. My home address is

B. Partnership, Corporation or Other Interestholder

1. \_\_\_\_\_ is not a foreign  
(Name of Interestholder)  
corporation, foreign partnership, foreign trust or foreign estate (as those terms are defined in the Code and Treasury Regulations).
2. The interestholder's U.S. employer identification number is
3. The interestholder's office address and place of incorporation (if applicable) is

The interestholder agrees to notify the Partnership within sixty (60) days of the date the interestholder becomes a foreign  person. The  person. The  
-----  
interestholder understands that this certificate may be disclosed to the Internal Revenue Service by the Partnership and that any false statement contained herein could be punishable by fine, imprisonment or both.

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Under penalties of perjury, I declare that I have examined this certification and to the best of my knowledge and belief it is true, correct and complete and, if applicable, I further declare that I have authority to sign this document on behalf of

-----  
(Name of Interestholder)  
-----  
Signature and Date  
-----  
Title (if applicable)

Note: If the Assignee is a broker, dealer, bank, trust company, clearing corporation, other nominee holder or an agent of any of the foregoing, and is holding for the account of any other person, this application should be completed by an officer thereof or, in the case of a broker or dealer, by a registered representative who is a member of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc., or, in the case of any other nominee holder, a person performing a similar function. If the Assignee is a broker, dealer, bank, trust company, clearing corporation, other nominee owner or an agent of any of the foregoing, the above certification as to any person for whom the Assignee will hold the Common Units shall be made to the best of the Assignee's knowledge.

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EXHIBIT B  
to the Amended and Restated  
Agreement of Limited Partnership of  
STAR GAS PARTNERS, L.P.

Certificate Evidencing Senior Subordinated Units  
Representing Limited Partner Interests  
STAR GAS PARTNERS, L.P.

No. Senior Subordinated Units

STAR GAS, LLC., a Delaware limited liability company, as the General Partner of STAR GAS PARTNERS, L.P., a Delaware limited partnership (the "Partnership"), hereby certifies that (the "Holder") is the registered owner of Senior Subordinated Units representing limited partner interests in the Partnership (the "Senior Subordinated Units") transferable on the books of the Partnership, in person or by duly authorized attorney, upon surrender of this Certificate properly endorsed and accompanied by a properly executed application for transfer of the Senior Subordinated Units represented by this Certificate. The rights, preferences and limitations of the Senior Subordinated Units are set forth in, and this Certificate and the Senior Subordinated Units represented hereby are issued and shall in all respects be subject to the terms and provisions of, the Amended and Restated Agreement of Limited Partnership of STAR GAS PARTNERS, L.P., as amended, supplemented or restated from time to time (the "Partnership Agreement"). Copies of the Partnership Agreement are on file at, and will be furnished without charge on delivery of written request to the Partnership at, the principal office of the Partnership located at 2187 Atlantic Street, Stamford, Connecticut 06912-0011. Capitalized terms used herein but not defined shall have the meaning given them in the Partnership Agreement.

The Holder, by accepting this Certificate, is deemed to have (i) requested admission as, and agreed to become, a Limited Partner and to have agreed to comply with and be bound by and to have executed the Partnership Agreement, (ii) represented and warranted that the Holder has all right, power and authority and, if an individual, the capacity necessary to enter into the Partnership Agreement, (iii) granted the powers of attorney provided for in the Partnership Agreement and (iv) made the waivers and given the consents and approvals contained in the Partnership Agreement.

This Certificate shall not be valid for any purpose unless it has been countersigned and registered by the Transfer Agent and Registrar.

Dated: Star Gas, LLC.,  
as General Partner

Countersigned and Registered by: By: \_\_\_\_\_  
President

\_\_\_\_\_ as Transfer Agent and Registrar By: \_\_\_\_\_  
Secretary

By: \_\_\_\_\_  
Authorized Signature

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[Reverse of Certificate]

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this Certificate, shall be construed as follows according to applicable laws or regulations:

TEN COM- as tenants in common UNIF GIFT MIN ACT-  
TEN ENT- as tenants by the entirety Custodian  
JT TEN- as joint tenants with right of (Cust) (Minor)  
survivorship and not as

tenants in common

under Uniform Gifts to Minors  
Act  
State

Additional abbreviations, though not in the above list, may also be used.

ASSIGNMENT OF SENIOR SUBORDINATED UNITS  
IN  
STAR GAS PARTNERS, L.P.

IMPORTANT NOTICE REGARDING INVESTOR RESPONSIBILITIES  
DUE TO TAX SHELTER STATUS OF STAR GAS PARTNERS, L.P.

You have acquired an interest in Star Gas Partners, L.P. 2187 Atlantic Street, Stamford, Connecticut 06912-0011, whose taxpayer identification number is 06-1437793. The Internal Revenue Service has issued Star Gas Partners, L.P. the following tax shelter registration number:

YOU MUST REPORT THIS REGISTRATION NUMBER TO THE INTERNAL REVENUE SERVICE IF YOU CLAIM ANY DEDUCTION, LOSS, CREDIT, OR OTHER TAX BENEFIT OR REPORT ANY INCOME BY REASON OF YOUR INVESTMENT IN Star Gas PARTNERS, L.P.

You must report the registration number as well as the name and taxpayer identification number of Star Gas Partners, L.P. on Form 8271. FORM 8271 MUST BE ATTACHED TO THE RETURN ON WHICH YOU CLAIM THE DEDUCTION, LOSS, CREDIT, OR OTHER TAX BENEFIT OR REPORT ANY INCOME BY REASON OF YOUR INVESTMENT IN STAR GAS PARTNERS, L.P.

If you transfer your interest in Star Gas Partners, L.P. to another person, you are required by the Internal Revenue Service to keep a list containing (a) that person's name, address and taxpayer identification number, (b) the date on which you transferred the interest and (c) the name, address and tax shelter registration number of Star Gas Partners, L.P. If you do not want to keep such a list you must (1) send the information specified above to the Partnership, which will keep the list for this tax shelter, and (2) give a copy of this notice to the person to whom you transfer your interest. Your failure to comply with any of the above-described responsibilities could result in the imposition of a penalty under Section 6707(b) or 6708(a) of the Internal Revenue Code of 1986, as amended unless such failure is shown to be due to reasonable cause.

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ISSUANCE OF A REGISTRATION NUMBER DOES NOT INDICATE THAT THIS INVESTMENT OR THE CLAIMED TAX BENEFITS HAVE BEEN REVIEWED, EXAMINED OR APPROVED BY THE INTERNAL REVENUE SERVICE.

FOR VALUE RECEIVED,  
transfers unto

hereby assigns, conveys, sells and

\_\_\_\_\_  
(Please print or typewrite name  
and address of Assignee)

\_\_\_\_\_  
(Please insert Social Security or  
other identifying number of  
Assignee)

Senior Subordinated Units representing limited partner interests evidenced by this Certificate, subject to the Partnership Agreement, and does hereby irrevocably constitute and appoint \_\_\_\_\_ as its attorney-in-fact with full power of substitution to transfer the same on the books of Star Gas Partners, L.P.

Date: \_\_\_\_\_

NOTE: The signature to any endorsement hereon must correspond with the name as written upon the face of this Certificate in every particular, without alteration, enlargement or change.

SIGNATURE(S) MUST BE GUARANTEED BY A MEMBER FIRM OF THE NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. OR BY A COMMERCIAL BANK OR TRUST COMPANY.

SIGNATURE(S) GUARANTEED

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Signature)

No transfer of the Senior Subordinated Units evidenced hereby will be registered on the books of the Partnership, unless the Certificate evidencing the Senior Subordinated Units to be transferred is surrendered for registration or transfer and an Application for Transfer of Senior Subordinated Units has been executed by a transferee either (a) on the form set forth below or (b) on a separate application that the Partnership will furnish on request without charge. A transferor of the Senior Subordinated Units shall have no duty to the transferee with respect to execution of the transfer application in order for such transferee to obtain registration of the transfer of the Senior Subordinate Units.

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APPENDIX A

No transfer of the Senior Subordinated Units evidenced hereby will be registered on the Books of the Partnership, unless the Certificate evidencing the Senior Subordinated Units to be transferred is surrendered for registration or transfer and an Application for Transfer of Senior Subordinated Units has been executed by a transferee either (a) on the form set forth below or (b) on a separate application that the Partnership will furnish on request without charge. A transferor of the Senior Subordinated Units shall have no duty to the transferee with respect to execution of the transfer application in order for such transferee to obtain registration of the transfer of the Senior Subordinated Units.

APPLICATION FOR TRANSFER OF SENIOR SUBORDINATED UNITS

The undersigned ("Assignee") hereby applies for transfer to the name of the Assignee of the Senior Subordinated Units evidenced hereby.

The Assignee (a) requests admission as a Substituted Limited Partner and agrees to comply with and be bound by, and hereby executes, the Amended and Restated Agreement of Limited Partnership of Star Gas Partners, L.P., as amended, supplemented or restated to the date hereof (the "Partnership Agreement"), (b) represents and warrants that the Assignee has all right, power and authority and, if an individual, the capacity necessary to enter into the Partnership Agreement, (c) appoints the General Partner and, if a Liquidator shall be appointed, the Liquidator of the Partnership as the Assignee's attorney-in-fact to execute, swear to, acknowledge and file any document, including, without limitation, the Partnership Agreement and any amendment thereto and the Certificate of limited Partnership and any amendment thereto, necessary or appropriate for the Assignee's admission as a Substituted Limited Partner and as a party to the Partnership Agreement, (d) gives the powers of attorney provided for in the Partnership Agreement and (e) makes the waivers and gives the consents and approvals contained in the Partnership Agreement. Capitalized terms not defined herein have the meanings assigned to such terms in the Partnership Agreement.

Date: \_\_\_\_\_

\_\_\_\_\_  
Signature of Assignee

\_\_\_\_\_  
Social Security or other identifying number of Assignee

\_\_\_\_\_  
Name and Address of Assignee

\_\_\_\_\_  
Purchase Price including commissions, if any

Type of Entity (check one):

- Individual     Partnership     Corporation
- Trust             Other (specify) \_\_\_\_\_

Nationality (check one):

- U.S. Citizen, Resident or Domestic Entity     Non-resident Alien
- Foreign Corporation

If the U.S. Citizen, Resident or Domestic Entity box is checked, the following certification must be completed.

Under Section 1445(e) of the Internal Revenue Code of 1986, as amended (the "Code"), the Partnership must withhold tax with respect to certain transfers of property if a holder of an interest in the Partnership is a foreign person. To inform the Partnership that no withholding is required with respect to the undersigned interestholder's interest in it, the undersigned hereby certifies the following (or, if applicable, certifies the following on behalf of the interestholder).

Complete Either A or B:

A. Individual Interestholder

- 1. I am not a non-resident alien for purposes of U.S. income taxation.
- 2. My U.S. taxpayer identification number (Social Security Number) is \_\_\_\_\_
- 3. My home address is \_\_\_\_\_

B. Partnership, Corporation or Other Interestholder

- 1. \_\_\_\_\_ is not a foreign corporation, foreign partnership, foreign (Name of Interestholder) trust or foreign estate (as those terms are defined in the Code and Treasury Regulations).
- 2. The interestholder's U.S. employer identification number is \_\_\_\_\_
- 3. The interestholder's office address and place of incorporation (if applicable) is \_\_\_\_\_

The interestholder agrees to notify the Partnership within sixty (60) days of the date the interestholder becomes a foreign person. The interestholder understands that this certificate may be disclosed to the Internal Revenue Service by the Partnership and that any false statement contained herein could be punishable by fine, imprisonment or both.

Under penalties of perjury, I declare that I have examined this certification and to the best of my knowledge and belief it is true, correct and complete and, if applicable, I further declare that I have authority to sign this document on behalf of

\_\_\_\_\_  
(Name of Interestholder)

\_\_\_\_\_  
Signature and Date

Note: If the Assignee is a broker, dealer, bank, trust company, clearing corporation, other nominee holder or an agent of any of the foregoing, and is holding for the account of any other person, this application should be completed by an officer thereof or, in the case of a broker or dealer, by a registered representative who is a member of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc., or, in the case of any other nominee holder, a person performing a similar function. If the Assignee is a broker, dealer, bank, trust company, clearing corporation, other nominee owner or an agent of any of the foregoing, the above certification as to any person for whom the Assignee will hold the Common Units shall be made to the best of the Assignee's knowledge.

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Annex D

Form of A.G. Edwards Opinion to be delivered

[February 10, 1999]

The Special Committee of the Board of Directors  
Star Gas Corporation  
2187 Atlantic Street  
Stamford, CT 06912-0011

Members of the Special Committee of the Board of Directors:

You (the "Special Committee") have requested the opinion of A.G. Edwards & Sons, Inc. ("A.G. Edwards"), the financial advisor to the Special Committee, as to the fairness, from a financial point of view, of the Transaction (as hereinafter defined) to the public common unitholders (the "Public Common Unitholders"), of Star Gas Partners, L.P., (the "Partnership").

As more fully described in the Partnership's Registration Statement on Form S-4, the "Transaction" consists of the following four interrelated principal parts:

(1) the acquisition of Petroleum Heat and Power Co., Inc. ("Petro") by the Partnership;

(2) the public offering of equity by the Partnership and the private placement of debt by Petro (in accordance with the terms set forth in the Amended and Restated Agreement and Plan of Merger) and the redemption of certain debt and preferred stock of Petro;

(3) the withdrawal of Star Gas Corporation, the current general partner of the Partnership (the "General Partner") from the Partnership (as well as from the operating partnership), and the admission of Star Gas L.L.C. as the new general partner; and

(4) the adoption of certain amendments to the Agreement of Limited Partnership (and the operating partnership's agreement of limited partnership) in order to consummate the Transaction.

For purposes of our opinion with respect to the Transaction, we have assumed that the Partnership will be able to complete the requisite financings in (2) and understand that the Transaction will not be consummated if the Partnership is unable to complete the requisite financings in accordance with the specified terms and conditions. We have also assumed that the General Partner's withdrawal and the related admission of a successor general partner in (3) will have no financial impact on the Public Common Unitholders.

A.G. Edwards, as part of its investment banking business, is regularly engaged in, among other things, the valuation of businesses and their securities in connection with mergers and acquisitions, initial public offerings, secondary distribution of listed and unlisted securities, private placements, and valuations for estate, corporate and other purposes. We are familiar with the Partnership through acting as exclusive financial advisor and placement agent in the Partnership's private placement of 7.17% First Mortgage Notes due 2010 and through our securities research coverage of the

Partnership. In connection with this engagement, we will receive fees (a portion of which is contingent upon the consummation of the Transaction) as well as our standard indemnification. We are not aware of any relationship between A.G. Edwards and the Partnership, the General Partner or Petro, which in our opinion would affect our ability to render a fair and independent opinion in this matter.

In connection with the opinion, A.G. Edwards' activities included, among other things:

(i) A review of the most recently available drafts of the Partnership's Registration Statement on Form S-4 and exhibits thereto, including the Amended and Restated Agreement and Plan of Merger, the Exchange Agreement, the Amended and Restated Agreement of Limited Partnership and the Conveyance and Contribution Agreements.

(ii) A review of certain publicly-available Partnership and Petro historical audited financial statements and certain unaudited interim financial statements;

(iii) A review of certain financial analyses and forecasts of the Partnership prepared by and reviewed with management of the General Partner and the views of management of the General Partner regarding the Partnership's past and current business operations, results thereof, financial condition and future prospects, including the impact of the Transaction, as well as information relating to the retail propane distribution industry and the potential strategic, financial and operational benefits and challenges anticipated from the Transaction;

(iv) A review of certain financial analyses and forecasts of Petro prepared by and reviewed with management of Petro and the views of management of Petro regarding Petro's past and current business operations, results thereof, financial condition and future prospects, including the impact of the Transaction, as well as information relating to the retail home heating oil distribution industry and the potential strategic, financial and operational benefits and challenges anticipated from the Transaction;

(v) A review of the pro forma impact of the Transaction on the Partnership and Petro;

(vi) A review of the publicly reported historical price and trading activity for the Partnership's Common Units and Petro's Class A Common Stock, including a comparison of certain financial and stock market information for the Partnership with similar publicly available information for certain other companies, the securities of which are publicly traded;

(vii) A review of the current market environment generally, and the retail propane distribution environment and the retail home heating oil distribution environment in particular;

(viii) A review of information relating to the financial terms of certain transactions, including selected mergers and acquisition transactions; and

(ix) A review of such other information, financial studies, analyses and investigations, and financial, economic and market criteria that A.G. Edwards considered relevant.

In rendering our opinion, A.G. Edwards has relied upon and assumed, without independent verification, the accuracy and completeness of all financial and other information, publicly available, furnished to, or otherwise discussed with A.G. Edwards for the purposes of the opinion. With respect to financial projections and other information provided to or otherwise discussed with

A.G. Edwards, A.G. Edwards assumed and was advised by the management of the General Partner and Petro, respectively, that such projections and other information were reasonably prepared on a basis that reflects the best currently available estimates and judgments of the management of the General Partner and Petro, respectively. A.G. Edwards reviewed numerous sets of projections for Petro and analyzed what it believed were certain of the major

assumptions embedded within Petro's projections. The Special Committee did not engage A.G. Edwards to, and therefore A.G. Edwards did not, verify the accuracy or completeness of any of the above information. A.G. Edwards has relied upon the assurances of the management of the General Partner and Petro that the respective managements are not aware of any facts that would make such information inaccurate or misleading. A.G. Edwards did not conduct a physical inspection of the properties or facilities of the Partnership or Petro nor did it make or obtain any independent evaluation or appraisals of any such properties or facilities or assets and liabilities. A.G. Edwards assumed that the Transaction will be accounted for as a purchase transaction under generally accepted accounting principles. A.G. Edwards also assumed that the final form of the Partnership's Registration Statement on Form S-4, the Amended and Restated Agreement and Plan of Merger, the Exchange Agreement, the Amended and Restated Agreement of Limited Partnership and the Conveyance and Contribution Agreements would be substantially similar to the last draft reviewed by A.G. Edwards.

A.G. Edwards did not express an opinion as to what the value of the Partnership's Senior Subordinated Units, Junior Subordinated Units or General Partner Units will be when issued to the holders of Petro's Common Stock pursuant to the Transaction, or the price at which the Partnership's Common Units or Senior Subordinated Units will trade subsequent to the Transaction.

Our opinion is necessarily based on economic and other conditions as in effect on, and the information made available to us as of, the date hereof (except market data which was as of February 3, 1999). Our opinion as expressed herein is limited to the fairness, from a financial point of view, to the Public Common Unitholders, of the Transaction and does not constitute tax advice, or a recommendation to any Public Common Unitholder as to how such unitholder should vote with respect to the Transaction.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the Transaction is fair, from a financial point of view, to the Public Common Unitholders.

Very truly yours,

A.G. Edwards & Sons, Inc.

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Annex E

Form of Dain Rauscher Wessels Opinion to be delivered

February , 1999

The Board of Directors  
Petroleum Heat & Power Co., Inc.  
Clearwater House  
2187 Atlantic Street  
Stamford, CT 06904-1457

Lady and Gentlemen:

You have requested our opinion as to the fairness from a financial point of view to the non-affiliate, public holders ("Public Common Stockholders") of Class A common stock and Class C common stock (collectively, "Petro Common Stock"), of Petroleum Heat & Power Co., Inc., a Minnesota corporation ("Petro"), of the terms of the proposed merger as set forth in the Agreement and Plan of Merger, anticipated to be executed in February 1999 (the "Merger Agreement"), by and among Petro; Star Gas Propane, L.P. (the "Operating Partnership"), a Delaware limited partnership and wholly-owned subsidiary of Star Gas Partners, L.P., a Delaware limited partnership (the "Partnership"); and a wholly-owned indirect subsidiary of the Operating Partnership ("Mergeco"). Pursuant to the Merger Agreement, Mergeco will be merged with and into Petro (the "Merger"), with Petro surviving the Merger as a wholly-owned indirect subsidiary of the Operating Partnership, and each share of Petro Common Stock held by the Public Common Stockholders shall be converted into the right to receive 0.11758 of a Senior Subordinated Unit ("Senior Subordinated Unit") of the Partnership. Cash will be paid in lieu of fractional Senior Subordinated Units based upon the market price of the Senior Subordinated Units following the Merger. The Merger will be treated as a taxable transaction for the Public Common Stockholders, and will be accounted for as a purchase transaction under generally accepted accounting principles. The terms and



conditions of the Merger and the rights and preferences of the Senior Subordinated Units are set forth more fully in the Merger Agreement and the Amended and Restated Partnership Agreement ("Partnership Agreement").

In arriving at our opinion, we have reviewed the most recently available drafts of the Merger Agreement, the Partnership Agreement, the Joint Proxy Statement / Prospectus of Petro and the Partnership (the "Proxy Statement") filed as a part of the Registration Statement on Form S-4 (the "Registration Statement") of the Partnership, and certain publicly available financial information concerning Petro and the Partnership. In addition, we have reviewed certain internal analyses, forecasts and other internal information concerning the businesses and operations of Petro and the Partnership prepared by the respective senior managements of Petro and the Partnership. We have also met with the senior managements of Petro and the Partnership to discuss the businesses, operations and prospects of Petro and the Partnership. In addition, we have considered certain long-term strategic benefits of the Merger, both operational and financial, that were described to us by the senior managements of Petro and the Partnership.

We have reviewed the terms of the Merger in relation to, among other things, current and historical market prices and trading volume for the Petro Class A Common Stock and the Partnership

Common Units ("Common Units"); the respective companies' cash flow, net income and book value per share/unit; the capitalization and financial condition of Petro and the Partnership; the pro forma financial impact of the Merger on Petro and the Partnership, including the potential relative ownership of various classes of units of the Partnership after the Merger by the current holders of Petro Common Stock and the current unitholders of the Partnership; and, to the extent publicly available, the terms of recent merger and acquisition transactions involving comparable companies. In addition, we have reviewed the merger premiums paid in recent stock-for-stock acquisitions of public companies generally, and energy industry companies in particular. We have also analyzed certain financial, stock market and other publicly available information relating to the business of other companies and partnerships whose operations we consider comparable to the respective operations of Petro and the Partnership. In addition to the foregoing, we have considered such other information, financial studies, analyses and investigations and financial, economic and market criteria as we deemed relevant in arriving at our opinion.

In connection with our review, we have not independently verified any of the foregoing information, and we have relied upon such information being complete and accurate in all material respects. We have assumed, with your consent, that the financial forecasts provided to us and discussed with us have been reasonably prepared on a basis reflecting the best currently available estimates and judgments of the senior managements of Petro and the Partnership as to the respective expected future performance of Petro and the Partnership, and of the combined companies subsequent to the proposed Merger. In addition, we have not conducted a physical inspection or made an independent evaluation or appraisal of the assets of Petro or the Partnership, nor have we been furnished with any such evaluation or appraisal. In rendering our opinion, we have assumed that in the course of obtaining the necessary regulatory and governmental approvals for the proposed Merger, no restriction will be imposed that will have a material adverse effect on the contemplated benefits of the proposed Merger. Our opinion is based on circumstances as they exist and can be evaluated on, and the information made available to us at, the date hereof.

Dain Rauscher Wessels, a division of Dain Rauscher Incorporated ("Dain Rauscher Wessels"), as part of its investment banking business, is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, corporate restructurings, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. We will receive a fee for our services in connection with rendering our opinion. In the ordinary course of our business, we may actively trade the securities of Petro and the Partnership for our own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

It is understood that this letter is for the information of the Board of Directors of Petro in connection with its consideration of the Merger and is not to be quoted or referred to, in whole or in part, in any registration statement, prospectus or proxy statement, or in any other document used in connection with the offering or sale of securities, nor shall this letter be used for any other purposes, without Dain Rauscher Wessels' prior written

consent. We understand that this letter will be reprinted in its entirety in the Proxy Statement sent to the holders of Petro Common Stock and unitholders of the Partnership in connection with the Merger and that we will have the opportunity to review and comment on all descriptions thereof in the Proxy Statement prior to the filing of the

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Proxy Statement, the Registration Statement and any supplements and amendments thereto, with the Securities and Exchange Commission and prior to its dissemination to holders of Petro Common Stock and the unitholders of the Partnership.

Our opinion does not address the merits of the underlying decision by Petro to engage in the Merger, and does not constitute a recommendation to any holder of Petro Common Stock as to how such holder should vote on the approval and adoption of the Merger Agreement or any matter related thereto. We are not expressing any opinion herein as to the prices at which Common Units or Senior Subordinated Units of the Partnership will trade following the consummation of the Merger.

Based upon our experience as investment bankers and subject to the foregoing, including the various assumptions and limitations set forth herein, it is our opinion that as of the date hereof the consideration to be received by the Public Common Stockholders in the proposed Merger is fair, from a financial point of view, to the Public Common Stockholders.

Very truly yours,

Dain Rauscher Wessels  
a division of Dain Rauscher  
Incorporated

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Annex F

#### 302A.471 RIGHTS OF DISSENTING SHAREHOLDERS.

Subd. 1. Actions creating rights. A shareholder of a corporation may dissent from, and obtain payment for the fair value of the shareholder's shares in the event of, any of the following corporate actions:

(a) An amendment of the articles that materially and adversely affects the rights or preferences of the shares of the dissenting shareholder in that it:

- (1) alters or abolishes a preferential right of the shares;
- (2) creates, alters, or abolishes a right in respect of the redemption of the shares, including a provision respecting a sinking fund for the redemption or repurchase of the shares;
- (3) alters or abolishes a preemptive right of the holder of the shares to acquire shares, securities other than shares, or rights to purchase shares or securities other than shares;
- (4) excludes or limits the right of a shareholder to vote on a matter, or to cumulate votes, except as the right may be excluded or limited through the authorization or issuance of securities of an existing or new class or series with similar or different voting rights; except that an amendment to the articles of an issuing public corporation that provides that section 302A.671 does not apply to a control share acquisition does not give rise to the right to obtain payment under this section;

(b) A sale, lease, transfer, or other disposition of all or substantially all of the property and assets of the corporation, but not including a transaction permitted without shareholder approval in section 302A.66, subdivision 1, or a disposition in dissolution described in section 302A.725, subdivision 2, or a disposition pursuant to an order of a court, or a disposition for cash on terms requiring that all or substantially all of the net proceeds of disposition be distributed to the shareholders in accordance with their respective interests within one year after the date of disposition;

(c) A plan of merger, whether under this chapter or under chapter 322B, to which the corporation is a party, except as provided in subdivision 3;

(d) A plan of exchange, whether under this chapter or under chapter 322B, to which the corporation is a party as the corporation whose shares will be acquired by the acquiring corporation, if the shares of the shareholder are entitled to be voted on the plan; or

(e) Any other corporate action taken pursuant to a shareholder vote with respect to which the articles, the bylaws, or a resolution approved by the board directs that dissenting shareholders may obtain payment for their shares.

Subd. 2. Beneficial owners. (a) A shareholder shall not assert dissenters' rights as to less than all of the shares registered in the name of the shareholder, unless the shareholder dissents with respect to all the shares that are beneficially owned by another person but registered in the name of the shareholder and discloses the name and address of each beneficial owner on whose behalf the

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shareholder dissents. In that event, the rights of the dissenter shall be determined as if the shares as to which the shareholder has dissented and the other shares were registered in the names of different shareholders.

(b) A beneficial owner of shares who is not the shareholder may assert dissenters' rights with respect to shares held on behalf of the beneficial owner, and shall be treated as a dissenting shareholder under the terms of this section and section 302A.473, if the beneficial owner submits to the corporation at the time of or before the assertion of the rights a written consent of the shareholder.

Subd. 3. Rights not to apply. Unless the articles, the bylaws, or a resolution approved by the board otherwise provide, the right to obtain payment under this section does not apply to a shareholder of the surviving corporation in a merger, if the shares of the shareholder are not entitled to be voted on the merger.

Subd. 4. Other rights. The shareholders of a corporation who have a right under this section to obtain payment for their shares do not have a right at law or in equity to have a corporate action described in subdivision 1 set aside or rescinded, except when the corporate action is fraudulent with regard to the complaining shareholder or the corporation.

#### 302A.473 PROCEDURES FOR ASSERTING DISSENTERS' RIGHTS.

Subd. 1. Definitions. (a) For purposes of this section, the terms defined in this subdivision have the meanings given them.

(b) "Corporation" means the issuer of the shares held by a dissenter before the corporate action referred to in section 302A.471, subdivision 1 or the successor by merger of that issuer.

(c) "Fair value of the shares" means the value of the shares of a corporation immediately before the effective date of the corporate action referred to in section 302A.471, subdivision 1.

(d) "Interest" means interest commencing five days after the effective date of the corporate action referred to in section 302A.471, subdivision 1 up to and including the date of payment, calculated at the rate provided in section 549.09 for interest on verdicts and judgments.

Subd. 2. Notice of action. If a corporation calls a shareholder meeting at which any action described in section 302A.471, subdivision 1 is to be voted upon, the notice of the meeting shall inform each shareholder of the right to dissent and shall include a copy of section 302A.471 and this section and a brief description of the procedure to be followed under these sections.

Subd. 3. Notice of dissent. If a proposed action must be approved by the shareholders, a shareholder who wishes to exercise dissenters' rights must file with the corporation before the vote on the proposed action a written notice of intent to demand the fair value of the shares owned by the shareholder and must not vote the shares in favor of the proposed action.

Subd. 4. Notice of procedure; deposit of shares. (a) After the proposed action has been approved by the board and, if necessary, the shareholders, the corporation shall send to all

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shareholders who have complied with subdivision 3 and to all shareholders entitled to dissent if no shareholder vote was required, a notice that contains:

(1) The address to which a demand for payment and certificates of certificated shares must be sent in order to obtain payment and the date by which they must be received;

(2) Any restrictions on transfer of uncertificated shares that will apply after the demand for payment is received;

(3) A form to be used to certify the date on which the shareholder, or the beneficial owner on whose behalf the shareholder dissents, acquired the shares or an interest in them and to demand payment; and

(4) A copy of section 302A.471 and this section and a brief description of the procedures to be followed under these sections.

(b) In order to receive the fair value of the shares, a dissenting shareholder must demand payment and deposit certificated shares or comply with any restrictions on transfer of uncertificated shares within 30 days after the notice was given, but the dissenter retains all other rights of a shareholder until the proposed action takes effect.

Subd. 5. Payment; return of shares. (a) After the corporate action takes effect, or after the corporation receives a valid demand for payment, whichever is later, the corporation shall remit to each dissenting shareholder who has complied with subdivisions 3 and 4 the amount the corporation estimates to be the fair value of the shares, plus interest, accompanied by:

(1) the corporation's closing balance sheet and statement of income for a fiscal year ending not more than 16 months before the effective date of the corporate action, together with the latest available interim financial statements;

(2) an estimate by the corporation of the fair value of the shares and a brief description of the method used to reach the estimate; and

(3) a copy of section 302A.471 and this section, and a brief description of the procedure to be followed in demanding supplemental payment.

(b) The corporation may withhold the remittance described in paragraph (a) from a person who was not a shareholder on the date the action dissented from was first announced to the public or who is dissenting on behalf of a person who was not a beneficial owner on that date. If the dissenter has complied with subdivisions 3 and 4, the corporation shall forward to the dissenter the materials described in paragraph (a), a statement of the reason for withholding the remittance, and an offer to pay to the dissenter the amount listed in the materials if the dissenter agrees to accept that amount in full satisfaction.

The dissenter may decline the offer and demand payment under subdivision 6. Failure to do so entitles the dissenter only to the amount offered. If the dissenter makes demand, subdivisions 7 and 8 apply.

(c) If the corporation fails to remit payment within 60 days of the deposit of certificates or the imposition of transfer restrictions on uncertificated shares, it shall return all deposited certificates and

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cancel all transfer restrictions. However, the corporation may again give notice under subdivision 4 and require deposit or restrict transfer at a later time.

Subd. 6. Supplemental payment; demand. If a dissenter believes that the amount remitted under subdivision 5 is less than the fair value of the shares plus interest, the dissenter may give written notice to the corporation of the

dissenter's own estimate of the fair value of the shares, plus interest, within 30 days after the corporation mails the remittance under subdivision 5, and demand payment of the difference. Otherwise, a dissenter is entitled only to the amount remitted by the corporation.

Subd. 7. Petition; determination. If the corporation receives a demand under subdivision 6, it shall, within 60 days after receiving the demand, either pay to the dissenter the amount demanded or agreed to by the dissenter after discussion with the corporation or file in court a petition requesting that the court determine the fair value of the shares, plus interest. The petition shall be filed in the county in which the registered office of the corporation is located, except that a surviving foreign corporation that receives a demand relating to the shares of a constituent domestic corporation shall file the petition in the county in this state in which the last registered office of the constituent corporation was located. The petition shall name as parties all dissenters who have demanded payment under subdivision 6 and who have not reached agreement with the corporation. The corporation shall, after filing the petition, serve all parties with a summons and copy of the petition under the rules of civil procedure. Nonresidents of this state may be served by registered or certified mail or by publication as provided by law. Except as otherwise provided the rules of civil procedure apply to this proceeding. The jurisdiction of the court is plenary and exclusive. The court may appoint appraisers, with powers and authorities the court deems proper, to receive evidence on and recommend the amount of the fair value of the shares. The court shall determine whether the shareholder or shareholders in question have fully complied with the requirements of this section, and shall determine the fair value of the shares, taking into account any and all factors the court finds relevant, computed by any method or combination of methods that the court, in its discretion, sees fit to use, whether or not used by the corporation or by a dissenter. The fair value of the shares as determined by the court is binding on all shareholders, wherever located. A dissenter is entitled to judgment in cash for the amount by which the fair value of the shares as determined by the court, plus interest, exceeds the amount, if any, remitted under subdivision 5, but shall not be liable to the corporation for the amount, if any, by which the amount, if any, remitted to the dissenter under subdivision 5 exceeds the fair value of the shares as determined by the court, plus interest.

Subd. 8. Costs; fees; expenses. (a) The court shall determine the costs and expenses of a proceeding under subdivision 7, including the reasonable expenses and compensation of any appraisers appointed by the court, and shall assess those costs and expenses against the corporation, except that the court may assess part or all of those costs and expenses against a dissenter whose action in demanding payment under subdivision 6 is found to be arbitrary, vexatious, or not in good faith.

(b) If the court finds that the corporation has failed to comply substantially with this section, the court may assess all fees and expenses of any experts or attorneys as the court deems equitable.

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These fees and expenses may also be assessed against a person who has acted arbitrarily, vexatiously, or not in good faith in bringing the proceeding, and may be awarded to a party injured by those actions.

(c) The court may award, in its discretion, fees and expenses to an attorney for the dissenters out of the amount awarded to the dissenters, if any.

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Annex G

#### PRO FORMA AVAILABLE CASH FROM OPERATING SURPLUS

The following table shows the calculation of pro forma Available Cash from Operating Surplus and should be read only in conjunction with "Cash Available for Distribution," the Partnership's unaudited pro forma condensed consolidated financial information.

Year Ended  
September 30,

	1998
	-----
	(In thousands)
Pro forma net income (loss).....	(\$10,856)
Add (deduct):	
Loss (gain) on sale of assets.....	48
Depreciation and amortization.....	36,765
Provision for supplemental benefits.....	409
Amortization of debt issuance costs.....	383
Corporate identity expenses(a).....	1,100
Restructuring charges(a).....	2,085
Transaction expenses(b).....	1,029
Maintenance capital expenditures.....	(4,874)
	-----
	\$ 26,089
	=====

- -----
- (a) Represents infrequent charges associated with Petro's branding, corporate identity and restructuring programs.
- (b) Represents expenses associated with the Transaction.

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 20. Indemnification of Directors and Officers

(a) The Registrant

The Section of the Registrant's Joint Proxy Statement/Prospectus which forms a part of this Registration Statement, entitled "The Amended and Restated Partnership Agreement--Indemnification" is incorporated herein by this reference.

Subject to any terms, conditions or restrictions set forth in the Partnership Agreements, Section 17-108 of the Delaware Revised Limited Partnership Act empowers a Delaware limited partnership to indemnify and hold harmless any partner or other person from and against any and all claims and demands whatsoever.

(b) Petro

Section 302A.521 of the Minnesota Business Corporation Act (the "MBCA") provides mandatory and exclusive standards for indemnification, although the Articles of Incorporation or by-laws of a corporation can specifically limit the statutory indemnification. Minnesota law generally provides that a corporation shall indemnify a person made or threatened to be made a party to a proceeding by reason of such person's official capacity as an officer, director or employee of the corporation, against judgments, penalties, fines, including, without limitation, excise taxes assessed against such person with respect to an employee benefit plan, settlements, and reasonable expenses, including attorney's fees and disbursements, incurred by that person in connection with the proceeding, if such person (a) has not been indemnified by another entity for the same proceedings and in connection with the same acts or omission; (b) acted in good faith; (c) received no improper personal benefit; (d) in the case of a criminal proceeding, had no reason to believe such person's conduct was unlawful; and (e) in connection with the acts or omissions in question, the person reasonably believed that such person's conduct was in the best interests of the corporation (or, in the case of a question of improper personal benefit, believed that the conduct was not opposed to the best interests of the corporation; or in the case of an employee benefit plan, believed that the conduct was in the best interests of the participants or beneficiaries of the employee benefit plan).

Section 302A.521 of the MBCA further provides that if an officer, director or employee is made or threatened to be made a party to a proceeding in such person's official capacity, such person is entitled, upon written request to the corporation, to payment or reimbursement by the corporation of reasonable expenses incurred by such person in advance of the final disposition of the

proceeding (a) upon receipt by the corporation of a written confirmation by such person of such person's good faith belief that the criteria for indemnification set forth under Minnesota law have been satisfied, an undertaking by such person to repay all amounts paid or reimbursed by the corporation if it is ultimately determined that the criteria for indemnification have not been satisfied, and (b) after a determination that the facts then known to those making the determination would not preclude indemnification under Minnesota law.

Finally, Section 302A.521 of the MBCA provides that a corporation's articles of incorporation or by-laws may prohibit indemnification or advances or may impose conditions on such indemnification or advance, as long as those conditions apply equally to all persons or to all persons within a given class.

Petro's restated articles of incorporation, as amended, contain the limitation of liability provision set forth below:

"ARTICLE VIII--A director of the corporation shall not be personally liable to the corporation or its shareholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its shareholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under

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Section 302A.559 of the Minnesota Business Corporation Act or Section 80A.23 of the Minnesota Securities Law, or (iv) for any transaction from which the director derived an improper personal benefit. If the Minnesota Business Corporation Act is hereafter amended to authorize any further limitation of the liability of a director, then the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the Minnesota Business Corporation Act, as amended. No amendment or repeal of this Article VIII shall apply to or have any effect on the liability or alleged liability of any director of the corporation for or with respect to any acts or omissions of such director occurring prior to such amendment or repeal."

Petro's by-laws, as amended, contain the indemnification provision set forth below:

"Section 8.01. The corporation shall indemnify all officers and directors of the corporation, for such expenses and liabilities, in such manner, under such circumstances, and to such extent as permitted by Minnesota Statutes Section 302A.521, as now enacted or hereafter amended. Unless otherwise approved by the Board of Directors, the corporation shall not indemnify or advance expenses to any employee of the corporation who is not otherwise entitled to indemnification pursuant to the prior sentence of this Section 8.01."

#### Indemnification Agreements with Directors

In March 1996 Petro entered into Indemnification Agreements with each of its directors. The Agreements generally provide that Petro will indemnify the directors against certain liabilities arising out of legal actions brought or threatened against them for their conduct on behalf of Petro to the fullest extent permitted by applicable law. The agreements contain provisions implementing the director's rights thereunder with respect to, among other things: (i) indemnification of expenses to a party who is wholly or partly successful; (ii) indemnification of expenses of a witness; (iii) advancement of expenses; (iv) procedure for determination of entitlement to indemnification; (v) certain presumptions; (vi) remedies of an indemnitee; (vii) subrogation; (viii) establishment of a trust and the funding thereof by Petro, upon the indemnitee's request, in the event of change in Control or potential Change in Control (as defined therein); and (ix) contribution in the event indemnification may be unavailable.

#### Item 21. Exhibits

2.1 Merger Agreement dated as of September 25, 1998, as amended, by and among

Petroleum Heat and Power Co., Inc., the Registrant and Star Gas Propane, L.P. (included as Annex A to the Joint Proxy Statement/ Prospectus which forms a part of this Registration Statement).

- 3.1 Form of Agreement of Limited Partnership of the Registrant(1)
- 3.2 Form of Agreement of Limited Partnership of Star Gas Propane, L.P.(1)
- 3.3 Form of Amended and Restated Limited Partnership Agreement of the Registrant (included as Annex C to the Joint Proxy Statement/Prospectus which forms a part of this Registration Statement).
- 3.4 Form of Amended and Restated Limited Partnership Agreement of Star Gas Propane, L.P.\*\*
- 3.5 Restated and Amended Articles of Incorporation of Petro, as amended, and Articles of Amendment thereto.(2)
- 3.6 Restated By-Laws of Petro.(2)
- 5.1 Opinion of Phillips Nizer Benjamin Krim & Ballon LLP as to the legality of the securities being registered\*\*
- 8.1 Opinion of Andrews & Kurth L.L.P. relating to tax matters\*
- 10.1 Form of Credit Agreement among Star Gas Propane, L.P. and certain banks(3)
- 10.2 Form of Conveyance and Contribution Agreement among Star Gas Corporation, the Partnership and the Operating Partnership.(3)
- 10.3 Form of First Mortgage Note Agreement among certain insurance companies, Star Gas Corporation and Star Gas Propane L.P.(3)

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- 10.4 Intercompany Debt(3)
- 10.5 Form of Non-competition Agreement between Petro and the Partnership(3)
- 10.6 Form of Star Gas Corporation 1995 Unit Option Plan(3)
- 10.7 Amoco Supply Contract(3)
- 10.8 Stock Purchase Agreement dated October 20, 1997 with respect to the Pearl Gas Acquisition(4)
- 10.9 Conveyance and Contribution Agreement with respect to the Pearl Gas Acquisition(4)
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- 10.12 Exchange Agreement (included as Annex B to the Joint Proxy Statement/Prospectus which forms a part of this Registration Statement)
- 10.13 Projections\*\*
- 10.14 Form of Proxy Card for the Registrant\*\*
- 10.15 Form of Proxy Card for Petro\*\*
- 10.16 Opinion of A.G. Edwards dated October 16, 1998(6)
- 10.17 Opinion of Dain Rauscher Wessels dated October 6, 1998(7)
- 10.18 Amendment to the Exchange Agreement dated as of February 10, 1999\*
- 21 Subsidiaries of the Registrant(5)
- 23.1 Consent of KPMG Peat Marwick LLP\*
- 23.2 Consent of Phillips Nizer Benjamin Krim & Ballon LLP (included in Exhibit 5.1)\*\*
- 23.3 Consent of Andrews & Kurth L.L.P. (included in Exhibit 8.1)\*
- 23.4 Consent of A.G. Edwards & Sons, Inc.\*
- 23.5 Consent of Dain Rauscher Wessels\*
- 24.1 Powers of Attorney\*\*
- 99.1 Supplemental Proxy Materials\*

- -----  
\* Filed herewith.

\*\* Previously filed.

+ To be filed by amendment.

- (1) Incorporated by reference to Appendix A to the Prospectus filed as part of Registrant's Registration Statement on Form S-1, File No. 33-90496.
- (2) Filed as exhibits to Petro's Registration Statement on Form S-1, File No. 33-48051, and incorporated herein by reference.
- (3) Incorporated by reference to the same Exhibit to Registrant's Registration Statement on Form S-1, File No. 33-98496, filed with the Commission on December 13,1995.



- (4) Incorporated by reference to the same Exhibit to Registrant's Periodic Report on Form 8-K, as amended, as filed with the Commission on October 23 and 29, 1997.
- (5) Incorporated by reference to the same Exhibit to Registrant's Registration Statement on Form S-3, File No. 333-47295, as filed with the Commission on March 4, 1998.
- (6) Incorporated by reference to Appendix D to the Proxy Statement filed as part of Registrant's Registration Statement on Form S-4 (File No. 333-66005) filed on October 22, 1998.
- (7) Incorporated by reference to Appendix E to the Proxy Statement filed as part of Registrant's Registration Statement on Form S-4 (File No. 333-66005) filed on October 22, 1998.

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Item 17. Undertakings

(1) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(2) The undersigned Registrant hereby undertakes that:

(a) For purposes of determining any liability under the Securities Act, the information omitted from the form of Prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of Prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be a part of this Registration Statement as of the time it was declared effective.

(b) For the purposes of determining any liability under the Securities Act, each post-effective amendment that contains a form of Prospectus shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) The undersigned Registrant hereby undertakes:

(a) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) to include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) to reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this Registration Statement; and

(iii) to include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement. Provided, however, that paragraphs (a)(i) and (a)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the Registrant pursuant to Section 13 or section 15(d) of the Exchange Act that are incorporated by reference in the Registration Statement.

(b) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof;

(c) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) To respond to requests for information that is incorporated by reference into this Prospectus within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the Registration Statement through the date of responding to the request.

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(5) That prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this Registration Statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the Registrant undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other items of the applicable form.

(6) That every prospectus (i) that is filed pursuant to paragraph (5) immediately preceding, or (ii) that purports to meet the requirements of Section 10(a)(3) of the Act and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the Registration Statement and will not be used until such amendment is effective, and that, for purposes of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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SIGNATURES

Pursuant to the requirements of the Securities Act, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Stamford, Connecticut, on February 9, 1999.

STAR GAS PARTNERS, L.P.

By: STAR GAS CORPORATION,  
as General Partner

/s/ Joseph P. Cavanaugh  
By: \_\_\_\_\_

Joseph P. Cavanaugh  
President

Pursuant to the requirements of the Securities Act, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature -----	Title -----	Date ----
/s/ Joseph P. Cavanaugh _____ Joseph P. Cavanaugh	President (Principal Executive Officer)	February 9, 1999

/s/ Richard F. Ambury Richard F. Ambury	Vice President--Finance (Principal Financial and Accounting Officer)	February 9, 1999
* Irik P. Sevin	Director	February 9, 1999
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* Elizabeth K. Lanier	Director	February 9, 1999
* Paul Biddelman	Director	February 9, 1999
* Thomas J. Edelman	Director	February 9, 1999
* Wolfgang Traber	Director	February 9, 1999
* William G. Powers, Jr.	Director	February 9, 1999

/s/ Richard F. Ambury  
\*By \_\_\_\_\_  
Richard F. Ambury  
Attorney-in-fact

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EXHIBIT INDEX

Exhibit -----	Description -----
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[LETTERHEAD OF ANDREWS & KURTH L.L.P. APPEARS HERE]

February 9, 1999

Star Gas Partners, L.P.  
2187 Atlantic Street  
Stamford, Connecticut 06902

Ladies and Gentlemen:

We have acted as special counsel to Star Gas Partners, L.P. (the "Partnership") in connection with the offering of up to 3,676,058 Senior Subordinated Units representing limited partner interests ("Senior Subordinated Units") and 102,773 common units representing limited partner interests ("Common Units" and, together with the Senior Subordinated Units, the "Units") in the Partnership pursuant to the Registration Statement on Form S-4 of the Partnership (Registration No. 66005) relating to the Units (the "Registration Statement"). Capitalized terms used herein but not defined are defined in the Registration Statement.

All statements of legal conclusions contained in the discussion that is contained in the section entitled "Certain Federal Income Tax Considerations" in the prospectus included in the Registration Statement (the "Prospectus"), unless otherwise noted, reflect our opinion with respect to the matters set forth therein.

We hereby consent to the references to our firm and this opinion contained in the Prospectus.

Very truly yours,

ANDREWS & KURTH L.L.P.

FORM OF AMENDMENT TO EXCHANGE AGREEMENT

February 10, 1999

Dear :

As you know, the exchange ratio for Petro shares has been adjusted in negotiations with the Star Special Committee. In addition (a) there have been some small adjustments to certain shares participating in the exchange and (b) the Special Committee has extended our time to place our shares in custody to February 28, 1999. Annexed is a revised Exhibit 1.2 to the Exchange Agreement which shows the changes from the original agreement.

Kindly confirm your consent to these changes by signing in the space provided below.

Sincerely,

Irik P. Sevin  
President

AGREED:

-----  
Exhibit 1.2  
-----

Shareholder	Class A	Class C	Total
-----	-----	-----	-----
P. Cohen	679,262	113,423	792,685
T. Edelman	653,312	129,019	782,331
R. O'Connell	1,128,745	302,461	1,431,206
A. Sevin	1,876,863	477,716	2,354,579
I. Sevin	630,227	201,641	831,868
Brentwood Corp.	681,873	120,985	802,858
Gabes S.A.	597,617	124,314	721,931
Minneford Corp.	73,638	12,000	85,638
Fernando Montero	--	35,287	35,287
M.M. Warburg & Co.	--	31,808	31,808
Hanseatic Corp.	--	298,717	298,717
Hanseatic Americas LDC	1,777,279	--	1,777,279
Barcel Corp.	605,151	151,231	756,382
Hubertus Langen	731,473	9,038	740,511
Tortosa GmbH	--	298,717	298,717
P. Biddelman	2,386	--	2,386

United Capital Corp.	90,000	--	90,000
	-----	-----	-----
	9,527,826	2,306,357	11,834,183

All shareholders to receive senior subordinated units of Star Partners at the ratio of .11758 per share, except A. Sevin, I. Sevin, Hanseatic Corp. and Hanseatic Americas LDC which will receive junior subordinated units and general partner units at the ratio of .14318 per share. The 9,038 shares of Class C Common Stock owned by Wolfgang Traber will not participate in the exchange.

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors  
Star Gas Partners, L.P.

We consent to incorporation by reference in the registration statement to be filed on Form S-4 of Star Gas Partners, L.P. of our report dated November 13, 1998, relating to the consolidated balance sheets of Star Gas Partners, L.P. and subsidiary as of September 30, 1998 and 1997, and the related consolidated statements of operations, partners' capital and predecessor equity and cash flows for each of the years in the three-year period ended September 30, 1998 and related schedule, which report appears in the September 30, 1998 annual report on Form 10-K/A of Star Gas Partners, L.P.

Additionally, we consent to the incorporation by reference in the registration statement to be filed on Form S-4 of Star Gas Partners, L.P. of our report dated October 22, 1997 relating to the balance sheets of Pearl Gas Co. as of December 31, 1996 and 1995, and the related statements of income, shareholders' equity, and cash flows for the years then ended, which report appears in the November 24, 1997 current report on Form 8-K/A of Star Gas Partners, L.P.

Additionally, we consent to incorporation by reference in the registration statement to be filed on Form S-4 of Star Gas Partners, L.P. of our report dated March 20, 1998, relating to the consolidated balance sheets of Petroleum Heat and Power Co., Inc. and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations, changes in shareholders' equity (deficiency) and cash flows for each of the years in the three-year period ended December 31, 1997 and related schedule, which report appears in the December 31, 1997 annual report on Form 10-K/A of Petroleum Heat and Power Co., Inc.

We also consent to the reference to our firm under the heading "Experts" in the prospectus.

Stamford, CT

February 9, 1999

KPMG LLP



[LETTERHEAD OF A.G. EDWARDS & SONS, INC. APPEARS HERE]

February 10, 1998

PERSONAL AND CONFIDENTIAL

Star Gas Partners, L.P.  
2187 Atlantic Street  
P.O. Box 120011  
Stamford, CT 06912-0011

Re: Registration Statement, as amended, of Star Gas Partners, L.P. (the "Partnership") for the Partnership and Petroleum Heat and Power Co., Inc. ("Petro") Joint Proxy Statement and the Partnership Prospectus (the "Proxy Statement") relating to the proposed acquisition by the Partnership of Petro, and certain related transactions (as defined in such Proxy Statement) dated as of February 9, 1999.

Gentlemen:

Reference is made to our opinion letter dated February 10, 1999 with respect to the fairness, from a financial point of view, of the Transaction (as defined in such opinion) to the public common unitholders of the Partnership.

The foregoing opinion letter is provided for the information and assistance of the Special Committee of the Board of Directors of Star Gas Corporation in connection with its consideration of the Transaction contemplated therein and is not to be used, circulated, quoted or otherwise referred to for any other purpose, nor is it to be filed with, included in or referred to in whole or in part in any registration statement, proxy statement or any other document, except in accordance with our prior written consent. We understand that the Partnership has determined to include our opinion in the above-referenced Registration Statement.

In that regard, we hereby consent to the reference to the opinion of our Firm and to the inclusion of the foregoing opinion in the Proxy Statement included in the above-mentioned Registration Statement. In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933 or the rules and regulations of the Securities and Exchange Commission thereunder.

Very truly yours,

/s/ A.G. Edwards & Sons, Inc.

A.G. EDWARDS & SONS, INC.

[Dain Rauscher Wessels Letterhead]

February 10, 1999

The Board of Directors  
Petroleum Heat & Power Co., Inc.  
Clearwater House  
2187 Atlantic Street  
Stamford, CT 06904-1457

Re: Form S-4 Registration Statement of Star Gas Partners, L.P. relating to the proposed acquisition by Star Gas Partners, L.P. of Petroleum Heat and Power Co., Inc.

Lady and Gentlemen:

Reference is made to our opinion letter dated February 10, 1999 with respect to the fairness from a financial point of view to the non-affiliate, public holders of Class A common stock and Class C common stock of Petroleum Heat & Power Co., Inc., a Minnesota corporation ("Petro"), of the terms of the proposed merger as set forth in the Amended and Restated Agreement and Plan of Merger, anticipated to be executed in February 1999, by and among Petro; Star Gas Propane, L.P. (the "Operating Partnership"), a Delaware limited partnership and wholly-owned subsidiary of Star Gas Partners, L.P., a Delaware limited partnership; and a wholly-owned indirect subsidiary of the Operating Partnership.

The foregoing opinion letter is provided for the information and assistance of the Board of Directors of Petro in connection with its consideration of the transaction contemplated therein and is not to be used, circulated, quoted or otherwise referred to for any other purpose, nor is it to be filed with, included in or referred to in whole or in part in any registration statement, proxy statement or any other document, except in accordance with our prior written consent. We understand that Petro has determined to include our opinion in the above-referenced Registration Statement.

In that regard, we hereby consent to the reference to the opinion of Dain Rauscher Wessels, a division of Dain Rauscher Incorporated, under the captions "Summary" and "Special Factors - Opinion of Dain Rauscher Wessels" and to the inclusion of the foregoing opinion in the Proxy Statement/Prospectus included in the above-mentioned Registration Statement. In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933 or the rules and regulations of the Securities and Exchange Commission thereunder.

Very truly yours,

DAIN RAUSCHER WESSELS

a division of Dain Rauscher Incorporated

The MERGER of  
Star Gas Partners, L.P. (Star)  
and  
Petroleum Heat and Power Co., Inc. (Petro)

A  
"POWER"ful  
Combination

PETRO SHAREHOLDERS.... VOTE NOW!

STAR GAS/PETRO...a "POWER"ful Combination

The proxy statement contains the details of an important merger that we are submitting to you for your approval.

We will summarize some key points here, but we urge you to read the entire proxy for a complete description of our plan.

STAR GAS/PETRO...a "POWER"ful Combination

A merger is proposed and  
YOUR "FOR" VOTE IS VERY IMPORTANT  
[In fact, not voting is the same as saying  
-----  
no to the merger]  
--

The Star Gas/Petro merger unites the country's eighth largest propane distributor with the nation's leading distributor of home heating oil, and the principal consolidator of this highly fragmented industry.

VOTE NOW!

STAR GAS/PETRO...a "POWER"ful Combination

WHAT IS HAPPENING?

You and your fellow unitholders/shareholders are being asked to vote on a proposal to merge Star Gas Partners, L.P. (Star) and Petroleum Heat and Power Co., Inc. (Petro).

STAR GAS/PETRO...a "POWER"ful Combination

WHY?

- . The Star/Petro Merger has been structured with the intent of providing an increase in the Partnership's cash flow. Given Petro's strong position in the -----  
home heating oil industry, it is the belief of the respective Boards and Managements that the Transaction will also provide the Partnership with an additional source of acquisition and expansion opportunities.
- Additionally, it is also anticipated that the larger size of the Partnership will:
- . Enhance Common Unit market liquidity;
- . Raise investment community awareness; and,
- . Result in additional securities analyst research coverage

STAR GAS/PETRO...a "POWER"ful Combination

Based on the expectation of the Partnership's enhanced cash flow, upon

completion of the Transaction, Star Common Unitholders will receive an increase  
-----  
in their minimum quarterly distribution (MQD) from \$2.20 to \$2.30 per unit, on  
-----  
an annual basis.  
-----

Star Subordinated Unitholders (former Petro Common Stockholders) will also receive an MQD of \$2.30 annually, if earned on a cumulative basis, beginning with the quarter ending December 31, 1999 (first distribution is expected February 2000), provided that the Common Unitholders have received all of their distributions.

STAR GAS/PETRO...a "POWER"ful Combination

Petro shareholders can determine approximately how many Star Gas Senior Subordinated Units they will receive following the consummation of the merger:

Petro shares owned prior to the merger	_____
multiplied by the exchange ratio	X 0.11758
=approximate Star Gas Senior Subordinated Units you will initially receive	_____

STAR GAS/PETRO...a "POWER"ful Combination

VOTE NOW!

Questions and Answers for Petro Shareholders

- What is being proposed? Common stockholders are considering Star Gas Partners' acquisition of Petro, which is currently Star Gas Partners' largest equity owner and the parent of its current general partner.
- What are Petro's reasons for the transaction? Petro does not have the financial flexibility to fully capitalize upon the acquisition, operating and corporate-branding opportunities that result from its position as the principal consolidator in the home heating oil industry. This transaction will recapitalize Petro, providing it with access to lower cost capital to better realize these growth opportunities.
- Which parts of the transaction are the Petro common stockholders considering? Common stockholders are only voting on Star Gas Partners' acquisition of Petro.
- When is the transaction expected to occur? Star Gas Partners and Petro anticipate completing the transaction in March 1999.
- What do I need to do right now? Common stockholders need to return the signed proxy card in the enclosed return envelope as soon as possible in order for their shares to be represented at the meetings. For more information on voting please call our proxy solicitor, Morrow & Co., at 1(800) 662-5200.
- The Petro board of directors unanimously recommends that common stockholders vote FOR the proposal to be acquired by Star Gas Partners.
- What do I do with my certificates? After the transaction is approved, common stockholders will receive written instructions

on how to deliver their Petro stock certificates in exchange for senior subordinated units.

VOTE FOR THE ACQUISITION!

STAR GAS/PETRO...a "POWER"ful Combination

VOTE NOW!

Questions and Answers for  
Star Gas Unitholders

What is being proposed?

Common unitholders are considering Star Gas Partners' acquisition of Petro, which is currently Star Gas Partners' largest equity owner and the parent of its current general partner.

What are Star Gas Partners' reasons for the transaction?

Petro is the largest home heating oil distributor in the country and has been a principal consolidator of that highly fragmented industry. Star Gas Partners believes Petro's strong position in the home heating oil industry will provide Star Gas Partners with attractive acquisition and expansion opportunities. In addition, the acquisition of Petro has been structured with the intent of providing an increase in Star Gas Partners' cash flow. Based on this expectation, the minimum quarterly distributor will increase from \$0.55 to \$0.575 per unit, or from \$2.20 to \$2.30 on a yearly basis, upon completion of the transaction.

What are the proposals the Star Gas Partners common unitholders will vote on?

Common unitholders are voting on three proposals:

- . The proposal to acquire Petro through a merger and an exchange of equity (i.e., common stock of Petro for senior subordinated units of Star Gas Partners).
- . The proposal to amend the partnership agreement to facilitate the transaction.
- . The proposal to elect a new general partner.

When is the transaction expected to occur?

Star Gas Partners and Petro anticipate completing the transaction in March 1999.

What do I need to do right now?

Common unitholders need to return the signed proxy card in the enclosed return envelope as soon as possible in order for their units to be represented at the meetings. For more information on voting please call our proxy solicitor, Morrow & Co., at 1(800) 662-5200.

Based on the recommendation of a special committee of the Star Gas Corporation board of directors, the Star Gas Corporation board of directors unanimously recommends that the common unitholders vote FOR each of the proposals.

What do I do with my certificates?

Common unitholders should hold their unit certificates. Common units will continue to be listed and traded on the New York Stock Exchange.

VOTE FOR THE PROPOSALS!

The MERGER of

Star Gas Partners, L.P. (Star)  
and  
Petroleum Heat and Power Co., Inc. (Petro)

A  
"POWER"ful  
Combination

STAR UNITHOLDERS..... VOTE NOW!