

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Date of report (Date of earliest event reported) March 26, 1999

Star Gas Partners, L.P.

(Exact name of registrant as specified in its charter)

Delaware

33-98490

06-1437793

(State or other jurisdiction
of incorporation)

(Commission File Number)

(IRS Employer
Identification No.)

2187 Atlantic Street, Stamford, CT

06902

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (203) 328-7300

Not Applicable

(Former name or former address, if changed since last report.)

Item 1. Change in Control of Registrant

None.

Item 2. Acquisition or Disposition of Assets

On March 26, 1999, Star Gas Partners, L.P. acquired Petroleum Heat and Power Co. Inc in a four part transaction. Each part of the transaction closed at the same time. The four principal parts of the transaction are described below.

Acquisition of Petro

On October 22, 1998, Petro, Star Gas Partners, Star Gas Propane L.P. (a 99%-owned subsidiary of Star Gas Partners) and a wholly-owned subsidiary of Star Gas Propane, executed a merger agreement. The parties entered into an amended and restated merger agreement on February 3, 1999 to reflect changes in the transaction. Under the merger agreement, upon the completion of the transaction on March 26, 1999, the subsidiary was merged with and into Petro, with Petro surviving the merger as a wholly-owned indirect subsidiary of Star Gas Propane. As a result of the merger:

- . each outstanding share of Petro Class A common stock, par value \$0.10 per share, and Petro Class C common stock, par value \$0.10 per share, other than shares that have been exchanged in the Exchange, was converted into 0.11758 senior subordinated units;
- . each outstanding share of Petro junior convertible preferred stock was converted into 0.13064 common units; and

- . each outstanding share of Petro Series C exchangeable preferred stock due 2009 was converted into the right to receive \$10.69 in cash per share plus accrued and unpaid dividends except for an aggregate of 505,000 shares of Series C preferred stock that were converted into an aggregate of 400,531 common units.

There are 11,228 shares of Petro Class B common stock, par value \$0.10 per share, representing less than 0.01% of the issued and outstanding shares of Petro common stock, which remained outstanding following the completion of the transaction.

The "exchange" occurred immediately prior to the merger and was comprised of the following elements.

(a) Holders of Petro common stock, consisting of Irik P. Sevin, Audrey L. Sevin, Hanseatic Corp. and Hanseatic Americas Inc., who are referred to as the "LLC Owners," formed Star Gas LLC, to which they contributed a portion of their shares of Petro common stock in exchange for all of the limited liability company interests in Star Gas LLC. Star Gas LLC contributed those shares to Star Gas Partners in exchange for general partner units. In addition, the LLC Owners contributed their remaining shares of Petro common stock to Star Gas Partners in exchange for junior subordinated units.

(b) Other Petro common stockholders who are affiliates of Petro contributed shares of Petro common stock to Star Gas Partners in exchange for Star Gas Partners senior subordinated units.

Financings and Refinancings

An integral element of the transaction was the refinancing of Petro's outstanding debt and preferred stock to substantially reduce Petro's ongoing borrowing costs. This refinancing was accomplished through several related transactions, which closed at the same time as the closing of the transaction.

To accomplish this refinancing, Star Gas Partners offered and sold to the public 8.7 million common units in the equity offering, the net proceeds of which were approximately \$116.1 million. Petro offered and sold, in a private placement, \$90.0 million of senior secured notes, the net proceeds of which were approximately \$87.7 million. Star Gas Partners and Petro Holdings guaranteed the notes.

All of the net proceeds of the equity offering, together with the \$87.7 million of estimated net proceeds from the debt offering and \$5.4 million of Petro's cash were used:

- . to redeem \$79.5 million of Petro's 12 1/4% Senior Subordinated Debentures due 2005, \$46.1 million of Petro's 10 1/8% Senior Subordinated Notes due 2003, \$68.3 million of Petro's 9 3/8% Senior Subordinated Debentures due 2006 and the \$7.4 million of Petro's 12 7/8% preferred stock;
- . to repurchase Petro's 1989 preferred stock; and
- . to pay for a portion of the expenses of the transaction.

In lieu of a portion of the cash purchase price that would otherwise be due to the holders of the Petro 12 7/8% preferred stock, Star Gas Partners may in the future issue an additional 175,000 senior subordinated units.

New General Partner

Since Star Gas Corporation is a wholly-owned subsidiary of Petro and was acquired as Star Gas Partners' subsidiary in the transaction, it was no longer able to serve as Star Gas Partners' general partner. Star Gas Partners' new general partner is Star Gas LLC, which is owned by the LLC Owners. Star Gas LLC's business activities are limited to those related to being our general partner. Star Gas LLC does not have a significant net worth except for its interest in Star Gas Partners.

Amendment of Partnership Agreement

In order to complete the transaction, Star Gas Partners needed to amend its partnership agreement and Star Gas Propane's partnership agreement in effect before the transaction. The amendment, among other matters, increased the

minimum quarterly distribution from \$0.55 to \$0.575 per unit.

Outstanding Star Gas Partners Units

The following table sets forth the approximate number of units outstanding before and after completion of the transaction. The 325,729 general partner interests/units represent 324,100 general partner units in Star Gas Partners and the 0.01% general partner interest in Star Gas Propane. This 0.01% 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	23.7%
Issued to Petro junior preferred stockholders.....	--	--	102,848	0.6
Issued in this offering and related refinancings.....	--	--	9,120,547	56.0
Subtotal.....	3,858,999	60.5	13,082,394	80.3
Subordinated Units				
Existing subordinated units.....	2,396,078	37.5	--	--
Senior subordinated units.....	--	--	2,481,742	15.3
Junior subordinated units.....	--	--	396,558	2.4
Subtotal.....	2,396,078	37.5	2,878,300	17.7
General Partner Interests/Units....	127,655	2.0	325,729	2.0
Total.....	6,382,732	100.0%	16,286,423	100.0%

Relationship of the Parties.

Star Gas Partners' former general partner, Star Gas Corporation, is a wholly-owned subsidiary of Petro. Petro also owned an aggregate 40.5% equity interest in Star Gas Partners. Moreover, all of the directors of Petro were also directors of Star Gas Corporation. As a result, Petro controlled Star Gas Partners.

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.

Item 3. Bankruptcy or Receivership

None.

Item 4. Change in Registrant's Certifying Accountant

None.

Item 5. Other Events

Item 6. Registration of Registrant's Directors

None.

Item 7. Financial Statements and Exhibits

(a) Financial Statement of Business Acquired

The following document is incorporated by reference to the registrants Form 8-K filed with the Securities and Exchange Commission on February 18, 1999:

Petroleum Heat and Power Co., Inc. audited consolidated financial statements as of December 31, 1997 and 1998 and for each of the years in the three-year period ended December 31, 1998

(b) Pro Forma Financial Information

The following document is incorporated by reference to the registrants Form S-3 filed with the Securities and Exchange Commission on April 5, 1999 (No. 333-75701) and is attached hereto as Exhibit 99.1

Star Gas Partners, L.P. and Subsidiaries, condensed consolidated pro forma financial information which gives effect to the acquisition of Petro by Star Gas Partners.

(c) Exhibits

99.1 - Pro forma financial statements

99.2 - Amendment dated March 25, 1999 to the Amended and Restated Agreement and Plan of Merger dated as of February 3, 1999 attached hereto as Exhibit 99.2.

Item 8. Changes in Fiscal Year

None.

Item 9. Sales of Equity Securities Pursuant to Regulation S.

None.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the date indicated:

Signature -----	Title -----	Date ----
/s/ Irik P. Sevin -----	Chairman of the Board and	
Irik P. Sevin	Chief Executive Officer Star Gas LLC (Principal Executive, Financial and Accounting Officer)	April 12, 1999

benefits				409		409		409
Depreciation and amortization.....	11,462	548	12,010	27,514	(87) (k)	35,431		35,431
					(4,006) (l)			
Net gain (loss) on sales of assets.....	(271)		(271)	11,507	(11,284) (k)	(48)	--	(48)
Operating income.....	7,173	776	7,949	14,299	(7,218)	15,030		15,030
Interest (income) expense, net.....	7,927	427	8,354	30,803		39,157	\$ (16,279) (q)	22,878
Amortization of debt issuance costs.....	176	--	176	1,432	--	1,608	(1,160) (n)	448
Income (loss) before income taxes.....	(930)	349	(581)	(17,936)	(7,218)	(25,735)	17,439	(8,296)
Income tax expense.....	25		25	475		500		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)	\$ (6,901)	\$ (26,235)	\$ 17,439	\$ (8,796)
General partner's interest in net income (loss).....	\$ (19)							\$ (176)
Limited partners' interest in net income (loss).....	\$ (936)							\$ (8,620)
Basic and diluted net income (loss) per limited partner unit..	\$ (0.16)							\$ (0.54) (r)
Weighted average number of limited partner units outstanding.....	6,035	220	6,255		103 (c)	6,840	8,720 (h)	15,961 (r)
					(2,396) (f)		401 (p)	
					396 (f)			
					2,482 (f)			

Star Gas Partners, L.P. and Subsidiaries

Pro Forma Condensed Consolidated Statement of Operations
(unaudited)
Three Months Ended December 31, 1998
(In thousands, except per unit data)

	Star Gas Partners, L.P.	Petro (j)	Pro Forma Adjustments	Pro Forma Combined	The Offerings	Star Gas Partners, L.P. Adjusted Pro Forma
	-----	-----	-----	-----	-----	-----
Sales.....	\$30,237	\$116,540		\$146,777		\$146,777
Costs and expenses:						
Cost of sales.....	11,978	74,018		85,996		85,996
Operating expenses....	11,724	30,123		41,847		41,847
Transaction expenses..	--	3,794		3,794		3,794
Provision for supplemental benefits.....		90		90		90
Depreciation and amortization.....	3,008	6,166	\$ (311) (l)	8,863		8,863
Net gain (loss) on sales of assets.....	(4)	(15)		(19)		(19)
Operating income	3,523	2,334	311	6,168		6,168
Interest expense, net...	2,178	7,820		9,998	\$ (3,904) (q)	6,094
Amortization of debt issuance costs.....	45	335		380	(268) (n)	112
Income (loss) before income taxes.....	1,300	(5,821)	311	(4,210)	4,172	(38)
Income tax expense.....	6	75		81		81
Income before equity interest in Star Gas Corporation.....		(5,896)				
Share of income (loss) of Star Gas Corporation.....		770	(770) (m)			

Net income (loss).....	----- \$ 1,294	----- \$ (5,126)	----- \$ (459)	----- \$ (4,291)	----- \$ 4,172	----- \$ (119)
	=====	=====	=====	=====	=====	=====
General partner's interest in net income (loss).....	\$ 26					\$ (2)
	=====					=====
Limited partners' interest in net income (loss).....	\$ 1,268					\$ (117)
	=====					=====
Basic and diluted net income (loss) per limited partner unit...	\$ 0.20					\$ (0.01)
	=====					=====
Weighted average number of limited partner units outstanding.....	6,255		103 (c) (2,396) (f) 396 (f) 2,482 (f)	6,840	8,720 (h) 401 (p)	15,961

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) this offering, as if each transaction had taken place on December 31, 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 for the twelve months ended September 30, 1998, or as of October 1, 1998, in the case of the pro forma condensed consolidated statement of operations for the three months ended December 31, 1998.

The pro forma adjustments are based upon currently available information, estimates and assumptions 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 \$15.8 million to redeem Petro's 12 7/8% preferred stock, the negotiated discount of approximately \$9.4 million to refinance Petro's public debt and the negotiated premium to refinance Petro's private debt of approximately \$2.9 million.

(c) Reflects the issue of 0.8 million shares of junior preferred stock of Petro, which was converted into 0.1 million common units upon completion of the transaction at an assumed value of \$14.1875 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 \$40.0 million; and
- (3) the elimination of the tax liability associated with the Pearl Gas conveyance of \$3.5 million.

(e) Reflects the estimated additional amount of \$3.7 million to be recorded by Petro for legal, professional and advisory fees incurred by Petro and Star Gas Partners in the transaction. Total estimated expenses are \$8.5 million. As of September 30, 1998 Petro has recorded \$1.1 million in transaction expenses. For the three months December 31, 1998, Petro has recorded \$3.8 million in transaction expenses.

(f) Represents the exchange of 26.2 million shares of Petro's Class A common stock and Class C common stock valued at \$49.9 million for 2.5 million Star Gas Partners senior subordinated units valued at \$40.2 million, 0.4 million Star Gas Partners junior subordinated units valued at \$5.3 million and 0.3 million general partner units valued at \$4.4 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 \$45.0 million or \$1.91 per share and the value assigned to Petro's Class C common stock is \$4.9 million or \$1.91 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 68 of the joint proxy statement and prospectus of Star Gas Partners, L.P. and Petroleum Heat and Power Co., Inc. dated February 10, 1999 for a description of the implied unit analysis method.

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 December 31, 1998 recorded values for tangible assets and liabilities. The closing date of the transaction was March 26, 1999. This purchase price allocation will be updated for changes in current assets and liabilities based on Petro's operating results from January 1, 1999 to March 26, 1999. From January 1, 1999 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 January 1, 1999 to the closing date will range between \$35 million to \$40 million.

The preliminary allocation is as follows: (In thousands)

Consideration given for the exchange of Petro shares.....	\$	49,856
Transaction expenses (1).....		8,547

Total consideration.....		58,403

Fair market value of Petro's assets and liabilities as of December 31, 1998:

Current assets.....	(93,126)
Cash collateral account.....	(6,900)
Property, plant and equipment (2).....	(40,109)
Value of Petro's investment in Star Gas.....	(34,424)
Current liabilities.....	97,283
Accrued income taxes.....	4,600
Accrued preferred dividends.....	648
Long-term debt.....	272,232
Deferred income taxes.....	40,000
Other liabilities.....	7,264
Preferred stock.....	12,828

Junior preferred stock.....	1,459
Subtotal.....	261,755
Total value assigned to intangibles and other assets.....	320,158
Carrying amount of intangibles and other assets.....	(76,201)
Allocation of excess purchase price to intangibles.....	\$ 243,957
Consisting of:	
Customer lists.....	\$ 95,000
Goodwill.....	224,193
Other assets.....	965
Total intangibles and other assets.....	\$ 320,158

- -----

(1) Transaction expenses include legal, accounting, investment advisory and asset appraisal costs.

(2) Includes fair market value adjustment of \$12.0 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. Any excess was attributable to goodwill.

The Debt Offering and The Equity Offering

(g) Reflects the net proceeds to Petro of approximately \$87.7 million from the \$90.0 million debt offering, net of underwriting discounts and commissions estimated to be \$1.4 million and offering expenses of approximately \$0.9 million. These costs are being amortized over the term of the related debt which is 8.5 years.

(h) Reflects the net proceeds to Star Gas Partners of approximately \$116.1 million from the issuance and sale of 8.7 million common units in the equity offering at an offering price of \$14.1875 per common unit, net of underwriting discounts and commissions of approximately \$6.2 million and offering expenses of approximately \$1.4 million.

The Propane Acquisitions

(i) Represents the results of certain 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.

There were no propane acquisitions completed in the three months ended December 31, 1998.

The Transaction (Acquisition of Petro)

(j) Represents the results of operations of Petro for the twelve months ended September 30, 1998 or the three months ended December 31, 1998. Estimated expenses of \$8.5 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 \$1.1 million of these expenses. For the three months ended December 31, 1998, Petro has recorded \$3.8 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.

(l) Adjustment to depreciation and amortization expense attributable to the acquisition of Petro.

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. For the twelve months ended September 30, 1998, the following table summarizes the effect on depreciation and amortization of the acquisition of Petro.

Property and equipment, net	Net Book Value Amount per Petro's Financials			Amount per Appraisal			Difference
	Asset(1)	Life	Depreciation(2)	Asset(1)	Life	Depreciation(2)	Depreciation
Land.....	\$ 2,092		\$ --	\$ 3,300		\$ --	\$ --
Buildings.....	4,788	20-45 years	419	4,300	30 years	143	(276)
Fleet.....	5,908	5 to 7 years	2,866	12,800	6 years	2,135	(731)
Leasehold.....	4,270	term of leases	562	5,900	term of leases	457	(105)
Computer, furniture and fixtures.....	7,377	5 to 7 years	2,491	9,700	5 to 7 years	1,661	(830)
Service & other equipment.....	3,689	5 to 13 years	692	4,109	5 to 13 years	557	(135)
Total property and equipment.....	\$28,124		\$ 7,030	\$ 40,109		\$ 4,953	\$ (2,077)
Intangible and other assets, net	Asset(1)	Life	Amortization(2)	Asset(1)	Life	Amortization(2)	Amortization
Customer list.....	\$52,596	6.5 years	\$17,364	\$ 95,000	10 years	\$ 9,500	\$ (7,864)
Goodwill.....	9,013	25 years	1,129	224,193	25 years	8,968	7,839
Covenants not to compete.....	2,855	5 to 7 years	1,904	--		--	(1,904)
Other assets.....	965		--	965		--	--
Total intangible and other assets.....	\$65,429		\$20,397	\$320,158		\$18,468	\$ (1,929)
Totals.....			\$27,427			\$23,421	\$ (4,006)

(1) As of December 31, 1998.

(2) For the twelve months ended September 30, 1998.

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 a 188 relatively small fuel oil dealers. This resulted in approximately \$7.8 million of additional amortization, largely offsetting the \$7.9 million of less customer list amortization. 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.

For the three months ended December 31, 1998, 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(1)	Life	Depreciation(2)	Asset(1)	Life	Depreciation(2)	Depreciation
Property and equipment, net							
Land.....	\$ 2,092		\$ --	\$ 3,300		\$ --	\$ --
Buildings.....	4,788	20-45 years	76	4,300	30 years	36	(40)
Fleet.....	5,908	5 to 7 years	676	12,800	6 years	534	(142)
Leasehold.....	4,270	term of leases	148	5,900	term of leases	114	(34)
Computer, furniture and fixtures.....	7,377	5 to 7 years	655	9,700	5 to 7 years	415	(240)
Service & other equipment.....	3,689	5 to 13 years	219	4,109	5 to 13 years	139	(80)
Total property and equipment.....	\$28,124		\$1,774	\$ 40,109		\$1,238	\$ (536)
Intangible and other assets, net							
Customer list.....	\$52,596	6.5 years	\$3,703	\$ 95,000	10 years	\$2,375	\$(1,328)
Goodwill.....	9,013	25 years	248	224,193	25 years	2,242	1,994
Covenants not to compete.....	2,855	5 to 7 years	441	--		--	(441)
Other assets.....	965		--	965		--	--
Total intangible and other assets.....	\$65,429		\$4,392	\$320,158		\$4,617	\$ 225
Totals.....			\$6,166			\$5,855	\$ (311)

(1) As of December 31, 1998.

(2) For the three months ended December 31, 1998.

(m) Reflects the elimination of Petro's equity interest in Star Gas Partners.

The Offerings

(n) Reflects the net adjustment for the twelve months ended September 30, 1998 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 \$0.3 million relating to the 7.92% notes. For the three months ended December 31, 1998, amortization of debt issuance costs is decreased by \$0.3 million relating to the repayment of Petro debt and is increased by \$0.1 million relating to the 7.92% notes.

(o) Reflects the use of the net proceeds from the equity offering and, the debt offering to repay \$79.5 million of Petro's 12 1/4% Senior Subordinated Debentures due 2005 to repay \$46.1 million of Petro's 10 1/8% Senior Subordinated Notes due 2003, to repay \$68.3 million of Petro's 9 3/8% Senior Subordinated Debentures due 2006, to retire \$7.4 million of Petro's 12 7/8% Exchangeable Preferred Stock, to retire \$4.2 million of Petro's 14.33% Exchangeable Preferred Stock and to pay \$3.7 million of transaction expenses. As of December 31, 1998 Petro had paid \$4.9 million in transaction expenses. As a result of the transaction, both Petro's current and long-term restricted cash balances become available for general business purposes. In addition, Petro has entered into private debt agreements with the private noteholders of:

- (i) its outstanding senior notes in the aggregate principal amount of \$60 million; and
- (ii) its Petro private debt in the aggregate principal amount of \$4.1 million (after payment of the January 1999 installment).

Under the private debt agreements at the effective time of the transaction:

- (i) the holders of the senior notes exchanged those notes for \$62.7 million aggregate principal amount of new 9% notes; and
- (ii) the holders of the 14.1% notes exchanged those notes for \$4.2 million aggregate principal amount of 10 1/4% notes. The new private notes have been guaranteed by Star Gas Partners and Petro Holdings.

(p) Reflects the exchange of \$5.4 million of Petro's 12 7/8% exchangeable

preferred stock for 0.4 million common units in lieu of cash.

(q) Reflects the net reduction to interest expense of \$16.3 million for the twelve months ended September 30, 1998. This amount reflects \$7.1 million of additional interest expense annually on the \$90.0 million in principal amount of the notes at an interest rate of 7.92%. This amount also reflects an annual reduction in interest expense of \$21.9 million due to the repayment of \$203.2 million of Petro public debt, excluding negotiated discounts, with the proceeds of this offering and the debt offering and a reduction in the interest rate attributable to the private debt agreements described above. In addition interest expense is reduced by \$0.3 million, as \$5.4 million of Petro's cash is used to finance the transaction.

The following table summarizes the effect on interest expense of the transaction for the twelve months ended September 30, 1998:

	Amount	Interest Rate	Interest Expense
	-----	-----	-----
Debt Repaid or Modified			
Petro 12 1/4% senior subordinated debentures(1)....	\$80,155	12.25%	\$ 9,819
Petro 10 1/8% senior subordinated notes.....	48,739	10.125%	4,934
Petro 9 3/8% senior subordinated debentures.....	74,334	9.375%	6,968
Petro 11.96% notes(2).....	60,000	11.96%	7,176
Petro 14.10% notes(2).....	6,884	14.10%	971
Lower letter of credit fees on acquisition notes...			191

Total reductions to interest expense.....			\$30,059

	Amount	Interest Rate	Interest Expense
	-----	-----	-----
New Debt Issued and Cash Balance Reduction			
Petro 7.92% notes.....	\$90,000	7.92%	\$(7,128)
Petro 9.0% senior notes(2).....	62,697	9.0%	(5,643)
Petro 10.25% senior and subordinated notes(2).....	7,064	10.25%	(724)
Lower invested cash balances.....	5,369	5.31%	(285)

Net reduction to interest expense.....			\$16,279
			=====

(1) Excludes prepayment premium of \$2.8 million.

(2) Notes exchanged under the private debt agreement.

The following table summarizes the effect on interest expense of the transaction for the three months ended December 31, 1998:

	Amount	Interest Rate	Interest Expense
	-----	-----	-----
Debt Repaid or Modified			
Petro 12 1/4% senior subordinated debentures(1)....	\$80,155	12.25%	\$ 2,455
Petro 10 1/8% senior subordinated notes.....	48,739	10.125%	1,234
Petro 9 3/8% senior subordinated debentures.....	74,334	9.375%	1,742
Petro 10.90% notes(2).....	60,000	10.90%	1,635
Petro 14.10% notes(2).....	6,200	14.10%	219
Lower letter of credit fees on acquisition notes...			48

Total reductions to interest expense.....			\$ 7,333

Amount	Interest Rate
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New Debt Issued and Cash Balance Reduction

Petro 7.92% notes.....	\$90,000	7.92%	\$(1,783)
Petro 9.0% senior notes(2).....	62,697	9.0%	(1,412)
Petro 10.25% senior and subordinated notes(2).....	6,380	10.25%	(163)
Lower invested cash balances.....	5,369	5.31%	(71)

Net reduction to interest expense.....			\$ 3,904
			=====

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(1) Excludes prepayment premium of \$2.8 million.

(2) Notes exchanged under the private debt agreement.

(r) The 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. In addition, Star Gas Partners has agreed to issue to the holders of Petro's 12 7/8% exchangeable preferred stock 175,000 senior subordinated units contingent upon Star Gas Partners earning \$2.40 per unit in distributable cash flow over four consecutive quarters during this period commencing on January 1, 2000 and ending on December 31, 2002. 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.

AMENDMENT dated March 25, 1999 to the Amended and Restated Agreement and Plan of Merger dated as of February 3, 1999, ("Agreement and Plan of Merger") 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/MERGCO, INC., a Minnesota corporation ("Mergco") and an indirect, wholly owned subsidiary of Star Partners.

W I T N E S S E T H :
- - - - -

WHEREAS, the parties hereto have entered into the Amended and Restated Agreement and Plan of Merger; and

WHEREAS, Section 9.2 of the Amended and Restated Agreement and Plan of Merger provides that it may be amended by an agreement in writing between the parties approved by their respective Boards of Directors (and in the case of Star Partners, by the Special Committee); and

WHEREAS, the Board of Directors of each of the parties to the Agreement and Plan of Merger and the Special Committee has approved the amendments to the Amended and Restated Agreement and Plan of Merger as set forth below.

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties and agreements contained herein and intending to be legally bound hereby the parties agree as follows:

1. Article I entitled "Certain Definitions" is hereby amended as follows:

(a) The definition of "Restructuring Transactions" is hereby deleted in its entirety and the following inserted in lieu thereof:

"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 in exchange for a note in principal amount of equivalent value;
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 102,848 newly issued Common Units, 1,706,246 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 2,274,961 shares of Class A 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 11,370 shares of Class A 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;

6. the contribution by Star Gas LLC of 2,263,591 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 324,101 General Partner Units, subject to adjustment as provided below) as contemplated by the Star LLC Conveyance Agreement;
7. the contribution by certain Petro Insiders to Star Partners of 3,035,152 shares of Class A and Class C Common Stock in exchange for 434,573 Junior Subordinated Units and 6,630,793 shares of Class A and Class C Common Stock in exchange for 779,645 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 760,302.

(b) "Petro Insiders" is hereby deleted in its entirety and the following is inserted in lieu thereof:

"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 and United Capital Corp.

(c) "Working Capital" is hereby amended by adding the following sentence at the end:

"Notwithstanding the foregoing, Petro's Working Capital as of February 28, 1999 shall be deemed to be increased by \$1,932,981 in excess of the amount of its actual Working Capital on such date as calculated pursuant to the preceding sentence."

2. Article III entitled "Merger Consideration; Exchange Provisions" is hereby amended by adding the following subparagraph as subparagraph 3.1 (g):

"(g) Each share of Private Preferred Stock, 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 and will be redeemed at Closing pursuant to the 1989 Preferred Stock Conditions."

3. Article VI entitled "Covenants" is hereby amended by adding the following Section as Section 6.17:

"6.17 Contingent Issuance of Additional Senior Subordinated units.

(a) Star Gas agrees in connection with the satisfaction of the Public Debt Conditions, the Private Debt Conditions and any agreement by the Public Preferred Stock to receive less than the amount provided in Section 3.1(e) hereof in the Merger, in the event that the over-

allotment option in the Equity Offering shall not exceed 1,090,002 Common Units, then under the circumstances listed below it will agree to issue to such holders of Public Preferred Stock and holders of the debt described in the Public Debt Conditions and the private Debt Conditions as Petro shall designate as an inducement for a reduction in the redemption (or conversion) price of such securities, the right to receive up to the additional number of Senior Subordinated Units set forth below, but only if the condition set forth in Section 6.17(b) is satisfied and the Closing is consummated:

Public Offering Price Per Common Unit	Maximum Number of Contingent Senior Subordinated Units
More than \$16 1/2	0
\$16 1/2	4,000
\$16 7/16	22,000
\$16 3/8	40,000
\$16 5/16	59,000
\$16 1/4	77,000
\$16 3/16	95,000
\$16 1/8	114,000
\$16 1/16	132,000
\$16	151,000
\$15 15/16	169,000
\$15 7/8 or less	175,000

(b) The contingent Senior Subordinated Units described in Section 6.17(a) shall be issued to the persons entitled thereto only in the event that Star Partners shall have Adjusted Operating Surplus (as defined in the Partnership Agreement) of \$2.40 or more per outstanding unit for at least one consecutive four calendar quarter period during the period beginning on January 1, 2000 and ending December 31, 2002.

(c) If contingent Senior Subordinated Units are issued, Star Partners will enter into a registration rights agreement with the holders containing customary terms agreeing to file a registration statement and keep it generally effective until the holders are free to sell under Rule 144.

4. Article IX, Sections 9.2, 9.3, 9.4, 9.7 and 9.9 of the Plan and Agreement of Merger are incorporated herein by reference.

5. Except as expressly set forth herein, this Agreement is not intended to amend or modify the Agreement and Plan of Merger in any respect.

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/MERGCO, INC.

By: _____
Name: William G. Powers, Jr.
Title: President