

# AMERIGAS PARTNERS LP

## FORM 10-K405

(Annual Report (Regulation S-K, item 405))

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

**FORM 10-K**

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

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1998**

*Commission file number 1-13692*  
*Commission file number 33-92734-01*

**AMERIGAS PARTNERS, L.P.**

**AMERIGAS FINANCE CORP.**

(EXACT NAME OF REGISTRANTS AS SPECIFIED IN THEIR CHARTERS)

Delaware	23-2787918
Delaware	23-2800532
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

460 North Gulph Road, King of Prussia, PA 19406  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

(610) 337-7000  
(REGISTRANTS' TELEPHONE NUMBER, INCLUDING AREA CODE)

**SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:**

TITLE OF CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Units representing limited partner interests	New York Stock Exchange, Inc.

**SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None**

INDICATE BY CHECK MARK WHETHER EACH REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS) AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS. YES X . NO .

INDICATE BY CHECK MARK IF DISCLOSURE OF DELINQUENT FILERS PURSUANT TO ITEM 405 OF REGULATION S-K IS NOT CONTAINED HEREIN, AND WILL NOT BE CONTAINED, TO THE BEST OF REGISTRANT'S KNOWLEDGE, IN DEFINITIVE PROXY OR INFORMATION STATEMENTS INCORPORATED BY REFERENCE IN PART III OF THIS FORM 10-K OR ANY AMENDMENT TO THIS FORM 10-K. [X]

The aggregate market value of AmeriGas Partners, L.P. Common Units held by nonaffiliates of AmeriGas Partners, L.P. on December 1, 1998 was approximately \$413,616,768. At December 1, 1998 there were outstanding 22,105,993 Common Units and 19,782,146 Subordinated Units, each representing limited partner interests.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the AmeriGas Partners, L.P. Annual Report for the year ended September 30, 1998 are incorporated by reference in Part II of this Form 10-K.

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## PART I: BUSINESS

### ITEMS 1 AND 2. BUSINESS AND PROPERTIES

#### GENERAL

AmeriGas Partners, L.P. ("AmeriGas Partners") is a publicly traded Delaware limited partnership formed on November 2, 1994. We are the largest retail propane distributor in the United States based on fiscal year 1998 retail sales volume of 785 million gallons. We serve approximately 956,000 residential, commercial, industrial, agricultural and motor fuel customers from approximately 600 district locations in 46 states. Our operations are located primarily in the Northeast, Southeast, Great Lakes and West Coast regions of the United States.

We conduct our business principally through our subsidiary, AmeriGas Propane, L.P. (the "Operating Partnership"), a Delaware limited partnership. On April 19, 1995, the Operating Partnership acquired the propane distribution businesses and assets of AmeriGas Propane, Inc., AmeriGas Propane-2, Inc. (collectively, "AGP") and Petrolane Incorporated ("Petrolane") (collectively, the "Predecessors"). These acquisitions took place concurrently with the initial public offering of our common units. The common units, which represent limited partner interests, are traded on the New York Stock Exchange under the symbol "APU." Our executive offices are located at 460 North Gulph Road, King of Prussia, Pennsylvania 19406, and our telephone number is (610) 337-7000. In this report, the terms "Partnership" and AmeriGas Partners, as well as the terms "our," "we," and "its," are used sometimes as abbreviated references to AmeriGas Partners, L.P., itself or AmeriGas Partners, L.P. and its consolidated subsidiaries, including the Operating Partnership.

AmeriGas Propane, Inc. is our general partner (the "General Partner"). The General Partner is a wholly owned subsidiary of UGI Corporation ("UGI"), a public company listed on the New York and Philadelphia Stock Exchanges. Through various subsidiaries, UGI has been in the propane distribution business for nearly 40 years. The General Partner and its subsidiary Petrolane own an aggregate 56.6% limited partner interest in the Partnership. In addition, the General Partner owns an aggregate 2% general partner interest. The General Partner is responsible for managing our operations.

Our subsidiary, AmeriGas Finance Corp. ("AmeriGas Finance"), a Delaware corporation, was formed on March 13, 1995. It serves as co-obligor for certain of our senior notes. AmeriGas Finance has nominal assets and does not conduct any operations. This report contains no discussion of the results of operations, liquidity or capital resources of AmeriGas Finance. Its executive offices are located at 460 North Gulph Road, King of Prussia, Pennsylvania 19406, and its telephone number is (610) 337-7000.

## **BUSINESS STRATEGY**

Our strategy is to expand operations and increase market share through the acquisition of local and regional propane distributors and through internal growth. Our principal focus will be on acquisitions, because the demand for propane is expected to remain relatively constant for the foreseeable future, with year-to-year industry volumes being affected primarily by weather patterns. Internal growth will include the opening of new district locations known as "scratch-starts" and expansion of our PPX Prefilled Propane Xchange(TM) program. Scratch starts are less costly than acquisitions of existing businesses; however, they typically do not reach target sales and profitability levels for a number of years. We believe opportunities also exist to grow our business internally through marketing programs designed to increase consumption among existing users and through expansion of our customer base as a result of commercial growth, new construction and propane conversions from electricity or fuel oil.

In fiscal year 1998, we acquired a total of ten propane operations with aggregate annual retail sales of approximately 8.9 million gallons. We also opened ten scratch-starts and added more than 4,000 PPX(TM) locations. The increase in the number of publicly traded master limited partnerships engaged in the propane distribution business has intensified acquisition and expansion activity in the industry. Although we believe there are numerous potential acquisition candidates in the industry, there can be no assurance that we will find attractive candidates in the future, or that we will be able to acquire such candidates on economically acceptable terms.

## **HISTORY OF THE PARTNERSHIP'S OPERATIONS**

AmeriGas, Inc. ("AmeriGas"), a wholly owned subsidiary of UGI, began propane distribution operations in 1959. In the ten fiscal years preceding the Partnership's formation, AGP, a subsidiary of AmeriGas, experienced significant growth through the acquisition of over 30 propane companies, including Cal Gas Corporation ("Cal Gas"), which was a major national propane distributor. In July, 1993, AmeriGas purchased a significant equity interest in Petrolane. At the time they were acquired, Cal Gas and Petrolane had annual revenues from propane sales that were approximately three times and one and one-half times, respectively, those of AGP.

## **GENERAL INDUSTRY INFORMATION**

Propane is separated from crude oil during the refining process and also extracted from natural gas or oil wellhead gas at processing plants. Propane is normally transported and stored in a liquid state under moderate pressure or refrigeration for economy and ease of handling in shipping and distribution. When the pressure is released or the temperature is increased, it is usable as a flammable gas. Propane is colorless and odorless; an odorant is added to allow its detection. Propane is clean burning, producing negligible amounts of pollutants when properly consumed.

The primary customers for propane are residential, commercial, agricultural, engine fuel and industrial users to whom natural gas is not readily available. Propane is typically more expensive than natural gas, competitive with fuel oil when operating efficiencies are taken into account and, in most areas, cheaper than electricity on an equivalent energy basis. Several states have adopted or are considering proposals that would substantially deregulate the electric utility industry and thereby permit retail electric customers to choose their electric supplier. While proponents of electric utility deregulation believe that competition will ultimately reduce the cost of electricity, we are unable to predict the extent to which the price of electricity may drop. Therefore, we cannot predict the ultimate impact that electric utility deregulation may have on propane's existing competitive price advantage over electricity.

## **PRODUCTS, SERVICES AND MARKETING**

As of September 30, 1998, the Partnership distributed propane to approximately 956,000 customers from approximately 600 district locations in 46 states. The Partnership's operations are located primarily in the Northeast, Southeast, Great Lakes and West Coast regions of the United States. The Partnership also sells, installs and services propane appliances, including heating systems. In certain markets, the Partnership also installs and services propane fuel systems for motor vehicles. Typically, district locations are found in suburban and rural areas where natural gas is not available. Districts generally consist of an office, appliance showroom, warehouse and service facilities, with one or more 18,000 to 30,000 gallon storage tanks on the premises. As part of its overall transportation and distribution infrastructure, the Partnership operates as an interstate carrier in 48 states throughout the United States. It is also licensed as a carrier in Canada.

The Partnership sells propane primarily to five markets: residential, commercial/industrial, motor fuel, agricultural and wholesale. Approximately 79% of the Partnership's 1998 fiscal year sales (based on gallons sold) were to retail accounts (32% to residential customers, 29% to industrial/commercial customers, 11% to motor fuel customers and 7% to agricultural customers), and approximately 21% were to wholesale customers. Sales to residential customers in fiscal 1998 represented approximately 40% of retail gallons sold and 51% of the Partnership's total propane margin. No single customer accounts for 1% or more of the Partnership's consolidated revenues.

In the residential market, which includes both conventional and mobile homes, propane is used primarily for home heating, water heating and cooking purposes. Commercial users, which include motels, hotels, restaurants and retail stores, generally use propane for the same purposes as residential customers. As a motor fuel, propane is burned in internal combustion engines that power over-the-road vehicles, forklifts and stationary engines. Industrial customers use propane to fire furnaces, as a cutting gas and in other process applications. Other industrial customers are large-scale heating accounts and local gas utility customers who use propane as a supplemental fuel to meet peak load deliverability requirements. Agricultural uses include tobacco curing and crop drying.

Retail deliveries of propane are usually made to customers by means of bobtail and rack trucks. Propane is pumped from the bobtail truck, which generally holds 2,400 to 3,000 gallons of propane, into a stationary storage tank on the customer's premises. The Partnership owns most of these storage tanks and leases them to its customers. The capacity of these tanks ranges from approximately 100 gallons to approximately 1,200 gallons.

The Partnership also delivers propane to retail customers in portable cylinders with capacities of 5 to 30 gallons. Some of these deliveries are made to the customer's location, where empty cylinders are either picked up for replenishment or filled in place. During fiscal year 1998, the Partnership expanded its prefilled cylinder exchange program, called PPX Prefilled Propane Xchange(TM). The PPX(TM) program enables customers to exchange their empty 20-pound propane cylinders at various retail locations. PPX(TM) is available at over 5,000 retail locations throughout the country. In its wholesale operations, the Partnership principally sells propane to large industrial end-users and other propane distributors.

## **PROPANE SUPPLY AND STORAGE**

Supplies of propane from the Partnership's sources historically have been readily available. During the year ended September 30, 1998, the Partnership purchased over 70% of its propane from 10 suppliers, including the Shell Oil companies (approximately 18%), Dynergy (approximately 17%), and the Amoco companies (approximately 15%). Management believes that if supplies from these sources were interrupted, the Partnership would be able to secure adequate propane supplies from other sources without a material disruption of its operations; however, the cost of procuring replacement supplies might be materially higher and, at least on a short-term basis, margins could be affected. Aside from Shell, Dynergy and Amoco, no single supplier provided more than 10% of the Partnership's total propane supply in fiscal year 1998. In certain market areas, however, some suppliers provide 70% to 80% of the Partnership's requirements. Disruptions in supply in these areas could also have an adverse impact on the Partnership's margins.

The Partnership has over 200 sources of supply, and it also makes purchases on the spot market. The Partnership purchases its propane supplies from domestic and international suppliers. Approximately 70% of propane purchases by the Partnership in the 1998 fiscal year were on a contractual basis under one-year agreements subject to annual renewal. More than half of the supply contracts provide for pricing based upon posted prices at the time of delivery or the current prices established at major storage points such as Mont Belvieu, Texas, or Conway, Kansas. In addition, some agreements provide maximum and minimum seasonal purchase volume guidelines. The percentage of contract purchases, and the amount of supply contracted for at fixed prices, will vary from year to year as determined by the General Partner. The Partnership uses a number of interstate pipelines, as well as railroad tank cars, delivery trucks and barges to transport propane from suppliers to storage and distribution facilities. The Partnership stores propane at facilities in Arizona, Michigan, Mississippi, Rhode Island, Utah and several other locations.

Because the Partnership's profitability is sensitive to changes in wholesale propane costs, the Partnership generally seeks to pass on increases in the cost of propane to customers. There is no assurance, however, that the Partnership will always be able to pass on product cost increases fully, particularly when product costs rise rapidly. In fiscal year 1997, when the Mont Belvieu price per gallon of propane more than doubled between April 1, 1996 (\$.34625) and December 16, 1996 (\$.75), the Partnership was able to maintain its profitability through the use of risk management techniques designed to control product costs, and by passing product cost increases through to end users.

The Partnership expects to be able to secure adequate product supply for its customers during fiscal year 1999. Periods of severe cold weather, supply interruptions, or other unforeseen events, however, could result in rapid increases in product cost. The General Partner has adopted supply acquisition and product price risk management practices to reduce the effect of price volatility on product costs. Current strategies include the use of summer storage, prepaid contracts for future product delivery, and derivative commodity instruments such as options and propane price swaps. See "Management's Discussion and Analysis of Results of Operations-Market Risk Disclosures."



The following graph shows the average prices of propane on the propane spot market during the last five fiscal years at Mont Belvieu, Texas and Conway, Kansas, two major storage areas.

### AVERAGE PROPANE SPOT MARKET PRICES

		Mont Belvieu	Conway	
1993	October Avg.	Oct-93	29.566	33.821
1993	November Avg.	Nov-93	27.763	32.138
1993	December Avg.	Dec-93	24.726	25.994
1994	January Avg.	Jan-94	26.613	25.708
1994	February Avg.	Feb-94	29.349	27.724
1994	March Avg.	Mar-94	28.467	26.875
1994	April Avg.	Apr-94	28.819	28.788
1994	May Avg.	May-94	29.619	28.732
1994	June Avg.	Jun-94	28.790	27.943
1994	July Avg.	Jul-94	29.244	27.981
1994	August Avg.	Aug-94	30.060	29.462
1994	September Avg.	Sep-94	30.113	29.833
1994	October Avg.	Oct-94	32.595	29.530
1994	November Avg.	Nov-94	34.606	30.694
1994	December Avg.	Dec-94	33.435	30.161
1995	January Avg.	Jan-95	32.834	29.551
1995	February Avg.	Feb-95	31.869	28.925
1995	March Avg.	Mar-95	32.837	30.011
1995	April Avg.	Apr-95	32.313	30.041
1995	May Avg.	May-95	32.753	31.229
1995	June Avg.	Jun-95	31.842	31.496
1995	July Avg.	Jul-95	30.811	31.383
1995	August Avg.	Aug-95	31.343	33.172
1995	September Avg.	Sep-95	31.361	32.477
1995	October Avg.	Oct-95	30.946	32.778
1995	November Avg.	Nov-95	30.953	32.741
1995	December Avg.	Dec-95	35.322	38.172
1996	January Avg.	Jan-96	36.000	36.242
1996	February Avg.	Feb-96	40.856	37.769
1996	March Avg.	Mar-96	37.229	36.012
1996	April Avg.	Apr-96	35.574	34.107
1996	May Avg.	May-96	34.923	34.477
1996	June Avg.	Jun-96	34.925	36.353
1996	July Avg.	Jul-96	35.634	37.268
1996	August Avg.	Aug-96	38.440	37.977
1996	September Avg.	Sep-96	47.016	44.784
1996	October Avg.	Oct-96	51.573	51.527
1996	November Avg.	Nov-96	58.049	63.411
1996	December Avg.	Dec-96	61.045	84.292
1997	January Avg.	Jan-97	47.455	63.392
1997	February Avg.	Feb-97	38.711	39.020
1997	March Avg.	Mar-97	38.500	37.256
1997	April Avg.	Apr-97	34.875	35.261
1997	May Avg.	May-97	35.310	36.476
1997	June Avg.	Jun-97	34.429	35.863
1997	July Avg.	Jul-97	34.906	34.628
1997	August Avg.	Aug-97	37.027	36.527
1997	September Avg.	Sep-97	38.679	37.952
1997	October Avg.	Oct-97	39.826	37.321
1997	November Avg.	Nov-97	35.948	35.004
1997	December Avg.	Dec-97	33.571	31.364
1998	January Avg.	Jan-98	30.066	28.206
1998	February Avg.	Feb-98	29.786	28.324
1998	March Avg.	Mar-98	27.389	27.838
1998	April Avg.	Apr-98	29.057	29.470
1998	May Avg.	May-98	27.419	27.823
1998	June Avg.	Jun-98	24.421	24.841
1998	July Avg.	Jul-98	24.540	24.548
1998	August Avg.	Aug-98	24.116	23.866
1998	September Avg.	Sep-98	24.830	24.042

### COMPETITION

Propane competes with other sources of energy, some of which are less costly for equivalent energy value. Propane distributors compete for customers against suppliers of electricity, fuel oil and natural gas, principally on the basis of price, service, availability and portability. Electricity is a major competitor of propane, but propane generally enjoys a competitive price advantage over electricity for space heating, water heating and cooking. As previously stated, we are unable to predict the ultimate impact that electric utility deregulation may have on propane's current competitive price advantage. Since the 1970s, many new homes have been built to use electrical heating systems and appliances. Fuel oil is also a major competitor of propane and is generally less expensive than propane. Operating efficiencies and other factors such as air quality and environmental advantages, however, generally make propane competitive with fuel oil as a heating source. Furnaces and appliances that burn propane will not operate on fuel oil, and vice versa, and, therefore, a conversion from one fuel to the other requires the

installation of new equipment. Propane serves as an alternative to natural gas in rural and suburban areas where natural gas is unavailable or portability of product is required. Natural gas is generally a less expensive source of energy than propane, although in areas where natural gas is available, propane is used for certain industrial and commercial applications and as a standby fuel during interruptions in natural gas service. The gradual expansion of the nation's natural gas distribution systems has resulted in the availability of natural gas in some areas that previously

depended upon propane. However, natural gas pipelines are not present in many regions of the country where propane is sold for heating and cooking purposes.

The domestic propane retail distribution business is highly competitive. The Partnership competes in this business with other large propane marketers, including other full-service marketers, and thousands of small independent operators. In recent years, some rural electric cooperatives and fuel oil distributors have expanded their businesses to include propane distribution and the Partnership competes with them as well. Based on the most recent annual survey by the American Petroleum Institute, the 1996 domestic retail market for propane (annual sales for other than chemical uses) was approximately 10.4 billion gallons and, based on LP-GAS magazine rankings, 1997 sales volume of the ten largest propane companies (including AmeriGas Partners) represented approximately 40% of domestic sales. The Partnership's retail volume of 785 million gallons in fiscal 1998 represented approximately 8% of the 1996 domestic retail market. The ability to compete effectively depends on supplying customer service, maintaining competitive retail prices and controlling operating expenses.

Competition can intensify in response to a variety of factors, including significantly warmer-than-normal weather, higher prices resulting from extraordinary increases in the cost of propane, and recessionary economic factors. The Partnership may experience greater than normal customer losses in certain years when competitive conditions reflect any of these factors.

In the motor fuel market, propane competes with gasoline and diesel fuel. When gasoline prices are high relative to propane, propane competes effectively. Wholesale propane distribution is a highly competitive, low margin business. Propane sales to other retail distributors and large-volume, direct-shipment industrial end users are price sensitive and frequently involve a competitive bidding process.

## **PROPERTIES**

As of September 30, 1998, the Partnership owned approximately 76% of its district locations. In addition, the Partnership subleases three one-million barrel underground storage caverns in Arizona to store propane and butane for itself and third parties. The Partnership also leases a 600,000 barrel refrigerated, above-ground storage facility in California, which could be used in connection with waterborne imports or exports of propane or butane. The California facility, which the Partnership operates, is currently subleased to several refiners for the storage of butane. In Rhode Island, the Partnership leases storage with a 400,000 barrel capacity.

The transportation of propane requires specialized equipment. The trucks and railroad tank cars utilized for this purpose carry specialized steel tanks that maintain the propane in a liquefied state. As of September 30, 1998, the Partnership owned a fleet of approximately 150 transport trucks; it leased approximately 350 transport trailers and 500 railroad tank cars. In addition, the Partnership fleet included over 2,400 bobtail and rack trucks, and over 1,900 other delivery and service vehicles. Approximately 46% of these vehicles were owned. The Partnership owned more than 800,000 stationary storage tanks with typical capacities of 100 to 1,000 gallons

and over 1,000,000 portable propane cylinders with typical capacities of 5 to 100 gallons. The Partnership also owns more than 2,100 large volume tanks which are used for its own storage requirements. Most of the Partnership's debt is secured by liens and mortgages on the Partnership's real and personal property.

### **TRADE NAMES, TRADE AND SERVICE MARKS**

The Partnership markets propane principally under the "AmeriGas," "America's Propane Company" and "PPX Prefilled Propane Xchange (TM)" trade names and related service marks. UGI owns, directly or indirectly, all the right, title and interest in the "AmeriGas" and "Petrolane" trade names and related trade and service marks. The General Partner owns all right, title and interest in the "America's Propane Company" trade name and related service mark. The Partnership has an exclusive (except for use by AmeriGas, Inc. and the General Partner), royalty-free license to use these names and trade and service marks. UGI, Petrolane Incorporated and the General Partner each has the option to terminate its respective license agreement on 12 months prior notice (immediately in the case of the General Partner), without penalty, if the General Partner is removed as general partner of the Partnership other than for cause. If the General Partner ceases to serve as the general partner of the Partnership for cause, Petrolane and the General Partner each has the option to terminate its license agreement upon payment of a fee equal to the fair market value of the licensed trade names. UGI has a similar termination option, however, UGI must provide 12 months prior notice in addition to paying the fee.

The General Partner has discontinued widespread use of the "Petrolane" trade name and conducts Partnership operations almost exclusively under the "AmeriGas," "America's Propane Company" and "PPX Prefilled Propane Xchange(TM)" trade names and related service marks. The General Partner has filed applications with the United States Patent and Trademark Office to register the mark "PPX Prefilled Propane Xchange(TM)" for use in connection with the Partnership's cylinder exchange business.

### **SEASONALITY**

Because many customers use propane for heating purposes, the Partnership's retail sales volume is seasonal, with approximately 57% of the Partnership's fiscal year 1998 retail sales volume and approximately 82% of its earnings before interest expense, income taxes, depreciation and amortization occurring during the five-month peak heating season from November through March. As a result of this seasonality, sales are concentrated in the Partnership's first and second fiscal quarters (October 1 through March 31). Cash receipts are greatest during the second and third fiscal quarters when customers pay for propane purchased during the winter heating season.

Sales volume for the Partnership traditionally fluctuates from year-to-year in response to variations in weather, prices, competition, customer mix and other factors, such as conservation efforts and general economic conditions. For historical information on national weather statistics, see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

## GOVERNMENT REGULATION

The Partnership is subject to various federal, state and local environmental, safety and transportation laws and regulations governing the storage, distribution and transportation of propane. These laws include, among others, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), the Clean Air Act, the Occupational Safety and Health Act, the Emergency Planning and Community Right to Know Act, the Clean Water Act and comparable state statutes. CERCLA, also known as the "Superfund" law, imposes joint and several liability on certain classes of persons considered to have contributed to the release or threatened release of a "hazardous substance" into the environment without regard to fault or the legality of the original conduct. Propane is not a hazardous substance within the meaning of federal and state environmental laws. However, the Partnership owns and operates real property where such hazardous substances may exist. See Note 2 to the Partnership's Consolidated Financial Statements.

All states in which the Partnership operates have adopted fire safety codes that regulate the storage and distribution of propane. In some states these laws are administered by state agencies, and in others they are administered on a municipal level. The Partnership conducts training programs to help ensure that its operations are in compliance with applicable governmental regulations. The Partnership maintains various permits under environmental laws that are necessary to operate certain of its facilities, some of which may be material to the operations of the Partnership. Management believes that the procedures currently in effect at all of its facilities for the handling, storage and distribution of propane are consistent with industry standards and are in compliance in all material respects with applicable environmental, health and safety laws.

With respect to the transportation of propane by truck, the Partnership is subject to regulations promulgated under the Federal Motor Carrier Safety Act. These regulations cover the transportation of hazardous materials and are administered by the United States Department of Transportation ("DOT"). With respect to general operations, National Fire Protection Association Pamphlets No. 54 and No. 58, which establish a set of rules and procedures governing the safe handling of propane, or comparable regulations, have been adopted as the industry standard in a majority of the states in which the Partnership operates.

The Natural Gas Safety Act of 1968 required the DOT to develop and enforce minimum safety regulations for the transportation of gases by pipeline. The DOT's pipeline safety code applies to, among other things, a propane gas system which supplies 10 or more customers from a single source and a propane gas system, any portion of which is located in a public place. The code requires operators of all gas systems to provide training and written instructions for employees, establish written procedures to minimize the hazards resulting from gas pipeline emergencies, and keep records of inspections and testing.

On December 13, 1996, the Research and Special Programs Administration ("RSPA"), a division of the DOT, issued an advisory notice that alerted persons involved in the design,

manufacture, assembly, maintenance or transportation of hazardous materials in certain cargo tank motor vehicles, including the type of vehicles used by the Partnership, of a problem with emergency discharge systems. On February 19, 1997, RSPA issued an emergency interim final rule indicating that the emergency discharge control systems on the affected vehicles may not function as required by federal regulations under all operating conditions. The interim final rule specified the conditions under which the affected vehicles could continue to be operated. On August 18, 1997, after conducting a series of public hearings and workshops, RSPA issued an interim final rule which sets forth the requirements that must be satisfied to continue operating such vehicles. The interim final rule requires, among other things, that in the event of an unintentional release of product, the person attending the unloading operation must be able to promptly activate the internal self-closing stop valve on the motor vehicle and shut down all power equipment. The interim final rule provides alternative ways to comply with this requirement and permits the use of radio-controlled systems that are capable of stopping the transfer of propane by use of a transmitter carried by a qualified person who also satisfies the attendance requirements contained in the regulations. The Partnership is in the process of installing a radio-controlled emergency shut-down system on its bobtail vehicles.

As a result of a civil action filed by five major multi-state propane marketers (not including the Partnership), the U.S. District Court for the Western District of Missouri issued a preliminary injunction against the DOT, staying and postponing certain provisions of the interim final rule. In addition, a parallel civil action brought by the propane industry's trade association, the National Propane Gas Association ("NPGA"), is pending in Texas.

In June 1998, RSPA responded to these actions by beginning a Negotiated Rulemaking Proceeding under the Negotiated Rulemaking Act of 1990. In such a negotiated rulemaking proceeding, representatives of interests that will be affected by a regulation meet to discuss the safety issues and to identify potential solutions. In this particular proceeding, the group must reach unanimity on the proposed solution and prepare a notice of proposed rulemaking for publication by the agency in early 1999.

The goal of the proceeding is to develop a regulatory framework relating to the safe unloading of propane from cargo tank motor vehicles. The General Partner is participating in the process and believes that the radio-controlled shut-off systems which it is installing on its bobtail trucks will be part of the final solution to the safety issues presented in the civil actions and the Negotiated Rulemaking with respect to these delivery vehicles. As to the Partnership's large vehicles known as transports, the General Partner is waiting for DOT to approve a final rule relating to emergency shutdown requirements. In the interim, the General Partner plans to investigate and test several different transport systems.

## **EMPLOYEES**

The Partnership does not directly employ any persons responsible for managing or operating the Partnership. The General Partner provides these services and is reimbursed for its direct and indirect costs and expenses, including all compensation and benefit costs. At

September 30, 1998, the General Partner had 5,107 employees, including 287 temporary and part-time employees. UGI also performs certain financial and administrative services for the General Partner on behalf of the Partnership and is reimbursed by the Partnership for its direct and indirect costs and expenses.

### **ITEM 3. LEGAL PROCEEDINGS**

There are no material legal proceedings pending involving the Partnership, any of its subsidiaries or any of their properties, and no such proceedings are known to be contemplated by governmental authorities other than claims arising in the ordinary course of the Partnership's business.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the last fiscal quarter of the 1998 fiscal year.

#### PART II: SECURITIES AND FINANCIAL INFORMATION

#### ITEM 5. MARKET FOR REGISTRANT'S COMMON UNITS AND RELATED SECURITY HOLDER MATTERS

Each common unit ("Common Unit") represents a limited partner interest. The Common Units are listed on the New York Stock Exchange, which is the principal trading market for such securities, under the symbol "APU." The following table sets forth, for the periods indicated, the high and low sale prices per Common Unit, as reported on the New York Stock Exchange Composite Transactions tape, and the amount of cash distributions paid per Common Unit.

1998 FISCAL YEAR	PRICE RANGE		CASH DISTRIBUTION
	HIGH	LOW	
Fourth Quarter	\$25.0625	\$21.0000	\$0.55
Third Quarter	26.4375	22.7500	0.55
Second Quarter	27.0000	24.3750	0.55
First Quarter	27.2500	23.3750	0.55

  

1997 FISCAL YEAR	PRICE RANGE		CASH DISTRIBUTION
	HIGH	LOW	
Fourth Quarter	\$27.2500	\$24.1250	\$0.55
Third Quarter	24.8750	22.2500	0.55
Second Quarter	25.0000	22.2500	0.55
First Quarter	25.1250	20.7500	0.55

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As of December 1, 1998, there were 1,195 record holders of the Partnership's Common Units. There is no established public trading market for the Partnership's subordinated units, representing limited partner interests ("Subordinated Units"). The Partnership makes quarterly distributions to its partners in an aggregate amount equal to its Available Cash, as defined in the Amended and Restated Agreement of Limited Partnership of AmeriGas Partners, L.P., which is filed as an exhibit to this report. Available Cash generally means, with respect to any fiscal quarter of the Partnership, all cash on hand at the end of such quarter, plus all additional cash on



hand as of the date of determination resulting from borrowings subsequent to the end of such quarter, less the amount of cash reserves established by the General Partner in its reasonable discretion for future cash requirements. Certain reserves are maintained to provide for the payment of principal and interest under the terms of the Partnership's debt agreements and other reserves may be maintained to provide for the proper conduct of the Partnership's business, and to provide funds for distribution during the next four fiscal quarters. The information concerning restrictions on distributions required by Item 5 of this report is incorporated herein by reference to Notes 3 and 4 to the Partnership's Consolidated Financial Statements which are incorporated herein by reference. Distributions of Available Cash to the holders of Subordinated Units are subject to the prior rights of holders of the Common Units to receive the Minimum Quarterly Distribution ("MQD") for each quarter during the subordination period, and to receive any arrearages in the distribution of the MQD on the Common Units for prior quarters during the subordination period. The subordination period will not end earlier than April 1, 2000. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

## ITEM 6. SELECTED FINANCIAL DATA

The following tables provide selected financial data for AmeriGas Partners and the Predecessors.

### AMERIGAS PARTNERS, L.P. AND SUBSIDIARIES (Thousands of dollars, except per unit)

	Year Ended September 30,			April 19 to September 30,
	1998	1997	1996	1995
FOR THE PERIOD:				
Income statement data:				
Revenues	\$ 914,378	\$ 1,077,825	\$ 1,013,225	\$ 269,500
Operating income (loss)	87,918	110,373	72,866	(20,088)
Income (loss) before income taxes	21,729	44,715	10,084	(47,400)
Net income (loss)	21,402	43,980	10,238	(47,107)
Limited partners' interest in net income (loss)	21,188	43,540	10,136	(46,636)
Income (loss) per limited partner unit	.51	1.04	.24	(1.12)
Cash distributions declared	2.20	2.20	2.20	.446
AT PERIOD END:				
Balance sheet data:				
Current assets	\$ 133,346	\$ 183,091	\$ 199,452	\$ 199,438
Total assets	1,217,216	1,318,661	1,360,292	1,423,615
Current liabilities (excluding debt)	144,229	146,449	157,182	126,270
Total debt	718,994	718,728	707,453	657,726
Minority interest	4,049	5,043	5,497	6,704
Partners' capital	299,875	397,537	442,236	560,959
OTHER DATA:				
EBITDA (a)	\$ 151,143	\$ 172,377	\$ 134,497	\$ 6,497
Capital expenditures	\$ 31,577	\$ 24,470	\$ 21,908	\$ 11,282
Retail propane gallons sold (millions)	785.3	807.4	855.4	243.6
Degree days - % (warmer) colder than normal (b)	(8.7)	(1.2)	1.7	N.M.

**N.M. - Not Meaningful.**

(a) EBITDA (earnings before interest expense, income taxes, depreciation and amortization) should not be considered as an alternative to net income

(loss) (as an indicator of operating performance) or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligations) and is not a measure of performance or financial condition under generally accepted accounting principles.

(b) Based upon national weather statistics provided by the National Oceanic and Atmospheric Administration (NOAA) for 335 airports in the continental U.S.

**ITEM 6. SELECTED FINANCIAL DATA (CONTINUED)**  
**AMERIGAS PROPANE / AGP - 2 (PREDECESSOR)**

(Thousands of dollars)

	September 24, 1994 to April 19, 1995 -----	Year Ended September 23, 1994 -----
INCOME STATEMENT DATA (FOR THE PERIOD):		
Revenues	\$ 242,185	\$ 367,120
Operating income	32,382	46,433
Income before extraordinary loss and accounting change	2,922	9,659
Net income (loss)	(10,620)	9,659
BALANCE SHEET DATA (AT PERIOD END):		
Current assets	\$ (x)	\$ 103,825
Total assets	(x)	510,981
Current liabilities (excluding debt)	(x)	63,292
Total debt	(x)	210,272
Common stockholders' equity	(x)	186,599
OTHER DATA:		
EBITDA (a)	\$ 45,971	\$ 69,521
Capital expenditures (b)	\$ 5,605	\$ 8,948
Retail propane gallons sold (millions)	225.0	332.4

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(a) EBITDA (earnings before interest expense, income taxes, depreciation and amortization) should not be considered as an alternative to net income (as an indicator of operating performance) or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligations) and is not a measure of performance or financial condition under generally accepted accounting principles.

(b) Excludes capital lease obligations.

(x) Not applicable.

**ITEM 6. SELECTED FINANCIAL DATA (CONTINUED)**  
**PETROLANE (PREDECESSOR)**

(Thousands of dollars, except per share)

	September 24, 1994 to April 19, 1995 -----	Year Ended September 23, 1994 -----
INCOME STATEMENT DATA (FOR THE PERIOD):		
Revenues	\$ 372,088	\$ 589,709
Operating income	41,469	56,887
Income (loss) before extraordinary item and accounting change	1,390	(2,309)
Net income (loss)	485	(2,309)
Income (loss) per common share	.05	(.22)
BALANCE SHEET DATA (AT PERIOD END):		
Current assets	\$(x)	\$ 126,436
Total assets	(x)	914,212
Current liabilities (excluding debt)	(x)	114,518
Total debt	(x)	625,883
Common stockholders' equity	(x)	93,113
OTHER DATA:		
EBITDA (a)	\$ 68,867	\$ 102,922
Capital expenditures (b)	\$ 7,291	\$ 22,077
Retail propane gallons sold (millions)	319.4	496.9

---

(a) EBITDA (earnings before interest expense, income taxes, depreciation and amortization) should not be considered as an alternative to net income (as an indicator of operating performance) or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligations) and is not a measure of performance or financial condition under generally accepted accounting principles.

(b) Excludes capital lease obligations.

(x) Not applicable.

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

### **ANALYSIS OF RESULTS OF OPERATIONS**

The following analysis compares the Partnership's results of operations for (1) the year ended September 30, 1998 ("Fiscal 1998") with the year ended September 30, 1997 ("Fiscal 1997") and (2) Fiscal 1997 with the year ended September 30, 1996 ("Fiscal 1996").

The following table provides gallon, weather and certain financial information for the Partnership:

**AmeriGas Partners, L.P.**  
(Millions, except per gallon and percentages)

	Year Ended September 30,		
	1998	1997	1996
	----	----	----
Gallons sold:			
Retail	785.3	807.4	855.4
Wholesale	205.1	218.6	309.7
	-----	-----	-----
	990.4	1,026.0	1,165.1
	=====	=====	=====
Revenues:			
Retail propane	\$ 746.1	\$ 868.2	\$ 786.9
Wholesale propane	88.5	126.0	137.9
Other	79.8	83.6	88.4
	-----	-----	-----
	\$ 914.4	\$ 1,077.8	\$ 1,013.2
	=====	=====	=====
Total propane margin (a)	\$ 423.9	\$ 430.2	\$ 398.6
Total margin (a)	\$ 470.6	\$ 477.4	\$ 443.5
EBITDA (b)	\$ 151.1	\$ 172.4	\$ 134.5
Operating income	\$ 87.9	\$ 110.4	\$ 72.9
Degree days - % (warmer) colder than normal (c)	(8.7)%	(1.2)%	1.7%

(a) Revenues less related cost of sales.

(b) EBITDA (earnings before interest expense, income taxes, depreciation and amortization) should not be considered as an alternative to net income (as an indicator of operating performance) or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligations) and is not a measure of performance or financial condition under generally accepted accounting principles.

(c) Based upon national weather statistics provided by the National Oceanic and Atmospheric Administration (NOAA) for 335 airports in the continental U.S.

## PARTNERSHIP RESULTS OF OPERATIONS

### FISCAL 1998 COMPARED WITH FISCAL 1997

Retail and wholesale volumes sold in Fiscal 1998 were lower than in Fiscal 1997 due to warmer heating-season weather. Because many of our customers use propane for heating purposes, our sales are affected by temperatures during the heating season. Based upon degree day information obtained from the National Oceanic and Atmospheric Administration (NOAA), weather in Fiscal 1998 was 8.7% warmer than normal compared to weather that was 1.2% warmer than normal in Fiscal 1997. In particular, the critical heating-season period of January and February was the warmest in more than 100 years.

Total revenues from retail propane sales were \$746.1 million in Fiscal 1998, a decrease of \$122.1 million from Fiscal 1997. The decrease includes \$98.3 million from a reduction in average selling prices and \$23.8 million from the lower retail volumes sold. Our wholesale propane revenues in Fiscal 1998 decreased \$37.5 million to \$88.5 million due to lower Fiscal 1998 selling prices and lower volumes. The lower average retail and wholesale selling prices were due to significantly lower propane product costs. Other revenues were \$79.8 million in Fiscal 1998, a decrease of \$3.8 million, due in large part to reduced terminal and storage revenues and lower appliance sales revenues.

Total margin, representing total revenues less cost of sales, declined \$6.8 million in Fiscal 1998 due to the lower retail volumes sold. The decline in Fiscal 1998 total margin resulting from the lower sales was partially offset by slightly higher average retail margin per gallon, or unit margin. The higher average unit margin in Fiscal 1998 principally resulted from the lower propane product costs.

The decrease in Fiscal 1998 operating income and EBITDA reflects (1) lower other income, (2) a decrease in total propane margin, and (3) slightly higher operating expenses. Other income, net, in Fiscal 1998 includes a \$4.0 million loss from two interest rate protection agreements. We entered into these agreements to reduce interest rate exposure associated with an anticipated refinancing of the Operating Partnership's Acquisition Facility in late Fiscal 1998. Like many companies planning debt refinancings, we postponed our refinancing in response to volatility in the corporate debt markets during the fourth quarter of fiscal 1998. The Partnership's strong cash flows in 1998, due in large part to improved working capital management and lower propane product costs, gave us the flexibility needed to delay the refinancing. When we postponed the refinancing we recorded a loss on the interest rate protection agreements because they no longer qualified for hedge accounting treatment. We expect the corporate debt markets to stabilize which should result in lower future interest expense when the refinancing occurs. Other income in Fiscal 1997 includes (1) \$4.7 million from the sale of the Partnership's 50% interest in Atlantic Energy, Inc. (Atlantic Energy), (2) higher customer finance charges, and (3) higher interest income. We sold our interest in Atlantic Energy in Fiscal 1997 after determining that its storage terminal facilities in Chesapeake, Virginia were not strategic to our business. Operating expenses were \$320.2 million in Fiscal 1998 compared to \$316.4 million in Fiscal 1997. Operating expenses in Fiscal 1998 include the benefit of (1) \$2.7 million from lower required accruals for

environmental matters and (2) \$2.0 million from lower required accruals for property taxes. Excluding these items, operating expenses in 1998 were \$8.5 million higher, an increase of 2.7%, primarily due to incremental expenses associated with (1) acquisitions and (2) new business activities including start-up locations and our PPX Prefilled Propane Xchange(TM) program. Excluding the impact of these new business activities, our base business total expenses were essentially unchanged.

## **FISCAL 1997 COMPARED WITH FISCAL 1996**

We sold fewer retail gallons of propane in Fiscal 1997 due in part to warmer heating-season weather. Weather in the continental U.S. during Fiscal 1997 as determined by NOAA averaged 1.2% warmer than normal compared to weather that was 1.7% colder than normal in Fiscal 1996. In addition, significantly higher and more volatile propane market prices during the first half of the Fiscal 1997 heating season encouraged customers to conserve. Wholesale volumes of propane sold decreased 91.1 million gallons to 218.6 million gallons in Fiscal 1997 principally due to reduced low-margin sales of storage inventories.

Total Fiscal 1997 revenues from our retail propane sales increased \$81.3 million to \$868.2 million. The increase includes a \$125.5 million increase from higher average selling prices partially offset by a \$44.2 million decrease from the lower retail volumes sold. The higher average prices resulted from significantly higher propane product costs early in Fiscal 1997. Our wholesale propane revenues in Fiscal 1997 decreased \$11.9 million to \$126.0 million reflecting the lower wholesale volumes sold partially offset by higher average wholesale prices. Other revenues declined \$4.8 million to \$83.6 million due to lower hauling, appliance and service revenues.

Total propane margin was greater in Fiscal 1997 because of higher average retail unit margins. Although our propane product costs were significantly higher in Fiscal 1997, we benefitted from favorable fixed-price supply arrangements and derivative commodity contracts entered into as part of our Fiscal 1997 propane supply strategy. The higher Fiscal 1997 average retail unit margin also reflects the fact that our retail unit margins in the prior-year period were adversely impacted by certain sales and marketing programs.

The increase in our Fiscal 1997 operating income and EBITDA is the result of (1) the higher total margin, (2) greater other income, and (3) a decrease in operating expenses. Total operating expenses were \$316.4 million in Fiscal 1997 compared with \$317.4 million in Fiscal 1996. The Fiscal 1996 operating expenses, however, are net of (1) \$4.4 million from a refund of insurance premium deposits and (2) \$3.3 million from a reduction in accrued environmental costs. Excluding the impact of these items on Fiscal 1996 operating expenses, operating expenses in Fiscal 1997 declined \$8.7 million mainly reflecting (1) lower expenses related to sales and marketing programs and (2) lower required accruals for general and automobile liability and workers' compensation costs. Other income increased \$2.9 million in Fiscal 1997 reflecting a pre-tax gain of \$4.7 million from the sale of the Partnership's 50% interest in Atlantic Energy.



## FINANCIAL CONDITION AND LIQUIDITY

### CAPITALIZATION AND LIQUIDITY

The Operating Partnership's primary cash sources have been (1) cash generated by operations and (2) borrowings under its Bank Credit Agreement.

The Operating Partnership's Bank Credit Agreement consists of (1) a Revolving Credit Facility and (2) an Acquisition Facility. The Operating Partnership may borrow up to \$100 million (including \$35 million for letters of credit) under the Revolving Credit Facility. The Revolving Credit Facility may be used for (1) working capital, (2) capital expenditures, and (3) interest and distribution payments. Revolving Credit Facility loans were \$10 million at September 30, 1998 and \$28 million at September 30, 1997. The Operating Partnership's borrowing needs are typically greatest during the fall and early winter months due to the need to fund working capital. The Operating Partnership may borrow up to \$75 million under its Acquisition Facility to finance the purchase of propane businesses or propane business assets. The Acquisition Facility operates like a revolving facility until September 15, 2000. At that time, the total amount outstanding converts to a quarterly amortizing four-year term loan. Acquisition Facility loans were \$60 million at September 30, 1998 and \$37 million at September 30, 1997.

The Partnership must maintain certain financial ratios in order to borrow under the Bank Credit Agreement. These include a minimum interest coverage ratio and a maximum debt to EBITDA ratio, each as defined in the Bank Credit Agreement. The Partnership's ratios calculated as of September 30, 1998 permit it to borrow up to the maximum amount available.

The Operating Partnership also has a credit agreement with the General Partner. The Operating Partnership may borrow up to \$20 million from the General Partner to fund (1) working capital, (2) capital expenditures, and (3) interest and distribution payments. The terms of this facility are generally comparable to those of the Revolving Credit Facility. The major difference, however, is that borrowings from the General Partner are unsecured and subordinated to all senior debt of the Operating Partnership. UGI has agreed to contribute up to \$20 million to the General Partner to fund such borrowings. The Operating Partnership did not borrow under this facility in Fiscal 1998.

The Partnership's management believes that, given near normal weather, its cash flow from operations and its credit facility borrowings will satisfy its liquidity needs, including paying the minimum quarterly distribution of \$.55 (MQD) to all unitholders, for the foreseeable future.

In June 1998, we revised our estimate of the tax basis of certain assets contributed to the Partnership in conjunction with the Partnership's formation. The change in estimate resulted in the following adjustments to the Consolidated Balance Sheet: (1) a \$27.2 million decrease in partners' capital; (2) a \$.3 million decrease in minority interest; (3) a \$17.9 million decrease in goodwill; and (4) a \$9.6 million decrease in excess reorganization value.

## PARTNERSHIP DISTRIBUTIONS

Since our formation in 1995, we have paid the MQD on all limited partner units outstanding. The amount of Available Cash needed in Fiscal 1998 to pay the MQD on all units as well as the 2% general partner interest was approximately \$94 million (\$48.6 million for the Common Units; \$43.5 million for the Subordinated Units; and \$1.9 million for the general partner interests). The amount of cash available for distribution that is generated by the Partnership can be estimated by subtracting (1) cash interest expense and (2) capital expenditures needed to maintain operating capacity, from the Partnership's EBITDA. Distributable cash as calculated for Fiscal 1998, Fiscal 1997 and Fiscal 1996 is as follows:

Year Ended September 30,	1998	1997	1996
(Millions of dollars)			
EBITDA	\$ 151.1	\$ 172.4	\$ 134.5
Cash interest expense(a)	(67.6)	(66.8)	(63.6)
Maintenance capital expenditures	(10.3)	(7.9)	(7.2)
Distributable cash flow	\$ 73.2	\$ 97.7	\$ 63.7

(a) Interest expense adjusted for noncash items.

Although distributable cash is a reasonable estimate of the amount of cash generated by the Partnership, it does not reflect changes in working capital which can significantly affect cash available for distribution. Distributable cash is not a measure of performance or financial condition under generally accepted accounting principles. Although the level of distributable cash in Fiscal 1998 was less than the full MQD, the additional cash generated from changes in the Partnership's working capital was more than sufficient to permit the Partnership to pay the full MQD. The ability of the Partnership to pay the MQD on all units depends upon a number of factors. These factors include (1) the level of Partnership earnings, (2) the cash needs of the Partnership's operations (including cash needed for maintaining and growing operating capacity), (3) changes in operating working capital, and (4) the Partnership's ability to borrow. Some of these factors are affected by conditions beyond our control including weather, competition in markets we serve, and the cost of propane.

## CONVERSION OF SUBORDINATED UNITS

As more fully described in Note 3 to Consolidated Financial Statements, the subordination period applicable to the Subordinated Units will extend until the first day of any quarter beginning on or after April 1, 2000 in which certain cash performance and distribution requirements are met. However, 4,945,537 Subordinated Units may convert into Common Units on the first day after the record date for distributions based upon any quarter ending on or after March 31, 1998, and an additional 4,945,537 may convert on the first day after the record date for distributions based upon any quarter ending on or after March 31, 1999, if certain cash performance and distribution

requirements are met. The cash performance requirements for conversion have not been met to date. They are dependent upon many factors including highly seasonal operating results, changes in working capital, asset sales and debt refinancings. Management believes, however, that it is reasonably possible that 9,891,074 Subordinated Units will convert into Common Units during fiscal 1999.

## **CASH FLOWS**

**OPERATING ACTIVITIES.** Although the Partnership's operating results were lower in Fiscal 1998, the Partnership's cash flow from operations increased \$22.5 million. Included in the Fiscal 1998 amount is \$51.1 million of cash generated from changes in operating working capital (which consists of customer accounts receivable, inventories, accounts payable and other current assets and liabilities used in the operations of our business). Changes in operating working capital in Fiscal 1997 contributed only \$.2 million. The change in working capital during Fiscal 1998 was primarily due to a \$36.8 million decrease in inventories and prepaid propane purchases and a \$15.9 million decrease in accounts receivable. These decreases were a result of improved working capital management and lower propane product costs.

**INVESTING ACTIVITIES.** We spent \$31.6 million for property, plant and equipment in Fiscal 1998, (including maintenance capital expenditures of \$10.3 million). Included in this amount is \$4.5 million relating to the design and installation of a new integrated financial system. The first phase of the integrated financial system installation is scheduled to be completed during the first half of Fiscal 1999. Capital expenditures in Fiscal 1997 were \$24.5 million (including maintenance capital expenditures of \$7.9 million). During Fiscal 1998, we paid \$8.1 million for propane business acquisitions compared to \$11.6 million in Fiscal 1997. Proceeds from disposals of assets totaled \$5.2 million in Fiscal 1998 compared with \$10.6 million in Fiscal 1997. The Fiscal 1997 amount includes proceeds from the sale of Atlantic Energy.

**FINANCING ACTIVITIES.** We paid the MQD on all Common Units and Subordinated Units, as well as the general partner interests, totaling \$94.1 million in Fiscal 1998. During Fiscal 1997 we paid \$93.9 million in such distributions. Due to our strong Fiscal 1998 cash flows, we were able to reduce the amount outstanding under our revolving credit facility by \$18 million. This compares with net borrowings of \$6 million in Fiscal 1997. During Fiscal 1998, the Operating Partnership borrowed \$23 million under its Acquisition Facility compared to \$7 million in Fiscal 1997.

## **YEAR 2000 MATTERS**

The Year 2000 ("Y2K") issue is a result of computer programs being written using two digits (rather than four) to identify and process a year in a date field. Computer programs having date sensitive software may recognize date fields using "00" as the year 1900 rather than the year 2000. If uncorrected, miscalculations and possible computer-based system failures could result which might disrupt business operations. We are designating the following information as our "Year 2000 Readiness Disclosure."

Recognizing the potential business consequences of the Y2K issue, we are using internal and external resources to conduct a detailed assessment of critical, date sensitive computer-based systems and to identify and modify systems which are not Y2K compliant. The scope of such efforts includes (1) our information technology ("IT") systems such as computer hardware and software we use in the operation of our business; (2) non-IT systems that contain embedded computer technology such as micro-controllers contained in various equipment, facilities and vehicles; and (3) the readiness of third parties, including our suppliers and key vendors, and certain of our customers. We have directed our Y2K compliance efforts toward ensuring that we will be able to continue to perform three critical operating functions: (1) obtain products to sell; (2) provide service to our customers; and (3) bill customers and pay our vendors and employees. We have completed the assessment of our IT and non-IT systems.

We have successfully modified all of our critical IT systems that are not in the process of being replaced. The modified systems include our customer information and data systems and our financial systems including payroll and the fuel accounting supply and transportation system. We are in the process of installing integrated financial system software that is already Y2K compliant. We anticipate that the installation of this software, as well as any modification of our critical non-IT systems, will be completed by March 31, 1999.

In addition to internal Y2K remediation activities, we are in the process of assessing the readiness of our key suppliers and third-party providers. Although none of our products or services are directly date sensitive, as a company with operations throughout the United States we are dependent upon other companies whose IT and non-IT systems may not be Y2K compliant. We rely on these companies for the supply and transportation of propane. Additionally, we depend on other companies to supply us with propane tanks and cylinders, fuel for our vehicles, as well as other products and services we need to operate our businesses. If key third parties cannot provide products or services because of their own Y2K problems, it could have a material adverse impact on our operations. The extent of such impact would depend upon the duration of disruption and our costs to find alternative sources of products and services, among others. We expect to complete our evaluation of key supplier and third-party provider Y2K readiness by March 31, 1999.

We are in the process of developing contingency plans to address, to the extent reasonably possible, disruptions arising from Y2K related failures of key suppliers and third-party providers. We anticipate the major elements of these contingency plans will be based upon the use of manual back-up systems, alternative supply sources, higher critical inventory levels, and additional staffing. These contingency plans attempt to mitigate the impact of third-party Y2K noncompliance. However, they cannot assure that business disruptions caused by key suppliers or third-party providers will not have a material adverse impact on our operations. We anticipate the business contingency plans will be completed by June 30, 1999. In addition to the business risks noted above, there are other Y2K risks which are beyond our control, any of which could have a material adverse impact on our operations. Such risks include the failure of utility and telecommunications companies to provide service and the failure of financial institutions to process transactions.

Incremental costs associated with our Y2K efforts have not had a material effect on our results of operations. Estimated future costs to modify existing IT and non-IT systems are expected to be less than \$0.5 million and will be financed through internally generated funds. We expense Y2K costs as incurred. Costs associated with information system improvement initiatives are expensed or capitalized in accordance with our accounting policy for software development costs.

## **IMPACT OF INFLATION**

Inflation affects the prices the Partnership pays for operating and administrative services and, to some extent, propane gas. Competitive pressures may limit the Partnership's ability to recover fully propane product cost increases. The Partnership attempts to limit the effects of inflation on its results of operations through cost control efforts and productivity improvements.

## **MARKET RISK DISCLOSURES**

Our primary market risk exposures are market prices for propane and changes in long-term interest rates.

Price risk associated with fluctuations in the prices we pay for propane is principally a result of market forces reflecting changes in supply and demand. The Partnership's profitability is sensitive to changes in propane supply costs and the Partnership generally seeks to pass on increases in such costs to customers. There is no assurance, however, that the Partnership will be able to do so. In order to manage propane market price risk, we use contracts for the forward purchase of propane, propane fixed-price supply agreements, and derivative commodity instruments such as price swap and option contracts. Although we use derivative financial and commodity instruments to reduce market price risk associated with forecasted transactions, we do not use derivative financial and commodity instruments for trading purposes.

We use long-term debt as a primary source of capital. These debt instruments are typically issued at fixed interest rates. When these debt instruments mature, we refinance such debt at then-existing market interest rates which may be more or less than the interest rates on the maturing debt. In addition, we may attempt to reduce interest rate risk associated with a forecasted issuance of new debt. In order to reduce interest rate risk associated with these transactions, we occasionally enter into interest rate protection agreements.

The following table summarizes the fair value of our market risk sensitive instruments by market risk at September 30, 1998. It also includes the change in fair value that would result if (1) the market price of propane declined 5 cents a gallon and (2) interest rates on ten-year U.S. treasury notes declined 50 basis points:

September 30, 1998	Fair Value	Change in Fair Value
(Millions of dollars)		
Propane commodity price risk	\$ (.6)	\$ (3.8)
Interest rate risk	\$ (2.4)	\$ (2.0)

We expect that any losses from market risk sensitive instruments used to manage propane price or interest rate market risk would be substantially offset by gains on the associated underlying transactions.

#### **ACCOUNTING PRINCIPLES NOT YET ADOPTED**

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income" (SFAS 130), and SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information" (SFAS 131). SFAS 130 establishes standards for reporting and displaying comprehensive income and its components in financial statements. Comprehensive income includes net income and all other nonowner changes in equity. SFAS 131 establishes standards for reporting information about operating segments as well as related disclosures about products and services, geographic areas, and major customers. We will adopt SFAS 130 and SFAS 131 in fiscal 1999. In addition, in March 1998 the American Institute of Certified Public Accountants issued Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1). SOP 98-1 requires companies to capitalize the cost of computer software developed or obtained for internal use once certain criteria have been met. We will adopt SOP 98-1 in fiscal 2000. We do not expect the adoptions of SFAS 130 and SOP 98-1 will have a material effect on our financial position or results of operations. In addition, we do not expect the initial application of SFAS 131 will affect the operating segments we disclose.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivative instruments as either assets or liabilities and measure them at fair value. The accounting for changes in fair value depends upon the purpose of the derivative instrument and whether it is designated and qualifies for hedge accounting. To the extent derivative instruments qualify and are designated as hedges of forecasted transactions, changes in fair value will generally be reported as a component of other comprehensive income and be reclassified into net income when the forecasted transaction affects earnings. To the extent such derivative instrument qualifies as a hedge of a firm

commitment, any gain or loss would generally be recognized in earnings when the firm commitment affects earnings. We will adopt SFAS 133 in fiscal 2000.

We are currently evaluating the potential impact of SFAS 133 on our future financial condition and results of operations. The impact of SFAS 133 will likely depend upon the extent to which we use derivative instruments and their designation and effectiveness as hedges of market risk.

## **FORWARD-LOOKING STATEMENTS**

Information contained above in this Management's Discussion and Analysis and elsewhere in this Report on Form 10-K with respect to expected financial results and future events is forward-looking, based on our estimates and assumptions and subject to risk and uncertainties. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

The following important factors could affect our future results and could cause those results to differ materially from those expressed in our forward-looking statements: (1) adverse weather conditions resulting in reduced demand; (2) price volatility and availability of propane, and the capacity to transport to market areas; (3) changes in laws and regulations, including safety, tax and accounting matters; (4) competitive pressures from the same and alternative energy sources; (5) liability for environmental claims; (6) improvements in energy efficiency and technology resulting in reduced demand; (7) labor relations; (8) inability to make business acquisitions on economically acceptable terms; (9) operating hazards and risks incidental to transporting, storing and distributing propane, butane and ammonia including the risk of explosions and fires resulting in personal injury and property damage; (10) regional economic conditions; (11) the success of the Partnership and its suppliers in achieving Year 2000 compliance; and (12) interest rate fluctuations and other capital market conditions.

These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on future results. We undertake no obligation to update publicly any forward-looking statement whether as a result of new information or future events.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.**

Quantitative and Qualitative Disclosure about market risk is contained in Management's Discussion and Analysis of Financial Condition and Results of Operations under the caption "Market Risk Disclosures" and is incorporated here by reference.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The financial statements and financial statement schedules referred to in the index contained on pages F-2 and F-3 of this report are incorporated herein by reference.

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

None.

## **PART III: MANAGEMENT AND SECURITY HOLDERS**

### **ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE GENERAL PARTNER**

We do not directly employ any persons responsible for managing or operating the Partnership. The General Partner and UGI provide such services and are reimbursed for direct and indirect costs and expenses including all compensation and benefit costs. See "Certain Relationships and Related Transactions" and Note 10 to the Partnership's Consolidated Financial Statements.

The Board of Directors of the General Partner established a committee (the "Audit Committee") consisting of two individuals, currently, Messrs. Van Dyck and Vincent, who are neither officers nor employees of the General Partner or any affiliate of the General Partner. The Audit Committee has the authority to review, at the request of the General Partner, specific matters as to which the General Partner believes there may be a conflict of interest, in order to determine if the resolution of such conflict is fair and reasonable to the Partnership. In addition, the Audit Committee has the authority and responsibility for selecting the Partnership's independent public accountants, reviewing the Partnership's annual audit, and resolving accounting policy questions.



## DIRECTORS AND EXECUTIVE OFFICERS OF THE GENERAL PARTNER

The following table sets forth certain information with respect to the directors and executive officers of the General Partner. Directors are elected annually by AmeriGas, Inc. as the sole shareholder of the General Partner. AmeriGas, Inc. is a wholly owned subsidiary of UGI. Executive officers are elected for one-year terms. There are no family relationships between any of the directors or any of the executive officers or between any of the executive officers and any of the directors.

NAME	AGE	POSITION WITH THE GENERAL PARTNER
Lon R. Greenberg	48	Chairman, Director, President and Chief Executive Officer
Thomas F. Donovan	65	Director
Richard C. Gozon	60	Director
James W. Stratton	62	Director
Stephen A. Van Dyck	55	Director
Roger B. Vincent	53	Director
David I. J. Wang	66	Director
Martha B. Lindsay	46	Vice President-Finance and Chief Financial Officer
Brendan P. Bovaird	50	Vice President and General Counsel
Eugene V. N. Bissell	45	Vice President-Sales and Operations
Diane L. Carter	50	Vice President-Human Resources
Richard R. Eynon	51	Controller and Chief Accounting Officer
R. Paul Grady	45	Vice President-Sales and Operations
William D. Katz	45	Vice President-Corporate Development
Robert H. Knauss	45	Vice President-Law and Associate General Counsel and Corporate Secretary

Mr. Greenberg is a Director (since 1994) and Chairman, President and Chief Executive Officer (since 1996) of the General Partner. He is also a Director (since 1994) and Chairman (since 1996), Chief Executive Officer (since 1995), and President (since 1994) of UGI, having been Senior Vice President - Legal and Corporate Development of UGI (1989 to 1994). Mr. Greenberg previously served as Vice President and General Counsel of AmeriGas, Inc. (1984 to 1994). He also serves as a Director of UGI Utilities, Inc. and Mellon PSFS Advisory Board.

Mr. Donovan was elected a Director of the General Partner on April 25, 1995. He retired as Vice Chairman of Mellon Bank on December 31, 1996, a position held since 1988. He continues to serve as an advisory board member to Mellon Bank Corp. He also serves as a Director of UGI Corporation, UGI Utilities, Inc., Nuclear Electric Insurance Co. and Merrill Lynch International Bank, Ltd.

Mr. Gozon was elected a director of the General Partner on February 24, 1998. He is Executive Vice President of Weyerhaeuser Company (an integrated forest products company), a position he has held since 1994. Mr. Gozon was formerly Director (1984 to 1993), President and Chief Operating Officer of Alco Standard Corporation (a provider of paper and office products) (1988 to 1993); Executive Vice President and Chief Operating Officer (1987); Vice President (1982 to 1988); and President (1979 to 1987) of Paper Corporation of America. He also serves as a Director of UGI Corporation, UGI Utilities, Inc., AmeriSource Health Corporation, and Triumph Group, Inc.

Mr. Stratton was elected a Director of the General Partner on April 25, 1995. He is President and Chief Executive Officer of Stratton Management Company (investment advisory and financial consulting firm) since 1972, and Chairman and Chief Executive Officer of FinDaTex (financial services firm). Mr. Stratton is a Director of UGI Corporation, UGI Utilities, Inc., Stratton Growth Fund, Stratton Monthly Dividend Shares, Inc., Stratton Small-Cap Yield Fund, Teleflex, Inc. and Unisource Worldwide, Inc.

Mr. Van Dyck was elected a Director of the General Partner on June 15, 1995. He is Chairman of the Board and Chief Executive Officer of Maritrans Inc. (since 1987), the nations largest independent marine transporter of petroleum. He also serves as Chairman of the Board of West of England Mutual Insurance Association, and as a Director of Mellon PSFS Advisory Board.

Mr. Vincent was elected a Director of the General Partner on January 8, 1998. He is President of Springwell Corporation, a corporate finance advisory firm (since 1989). Mr. Vincent served in various capacities at Bankers Trust Company (1971 to 1989), including managing director (1984 to 1989). He is also a Director of Tatham Offshore, Inc.

Mr. Wang was elected a Director of the General Partner on April 25, 1995. Mr. Wang is retired, having formerly served as Executive Vice President - Timber and Specialty Products and a Director of International Paper Company (1987 to 1991). He is also a Director of UGI Corporation and UGI Utilities, Inc.

Ms. Lindsay was elected Vice President - Finance and Chief Financial Officer of the General Partner on January 5, 1998. She previously served as Vice President and Treasurer (1994 to 1997) and as Treasurer (1994) of Tambrands Inc., a manufacturer of personal products. Prior to 1994, Ms. Lindsay held the positions of Director of Business Development (1987 to 1989) and Assistant Treasurer (1990 to 1993) at Tambrands Inc.

Mr. Bovaird is Vice President and General Counsel of the General Partner (since 1995). He is also Vice President and General Counsel of UGI Corporation, UGI Utilities, Inc. and AmeriGas, Inc. (since 1995). Mr. Bovaird previously served as Division Counsel and Member of the Executive and Operations Committees of Wyeth-Ayerst International Inc. (1992 to 1995) and Senior Vice President, General Counsel and Secretary of Orion Pictures Corporation (1990 to 1991). Mr. Bovaird also engaged in private practice from 1991 to 1992.

Mr. Bissell is Vice President - Sales and Operations (since 1995) of the General Partner. Previously, he was Vice President - Distributors and Fabrication, BOC Gases (1995), having been Vice President - National Sales (1993 to 1995) and Regional Vice President Southern Region for Distributor and Cylinder Gases Division, BOC Gases (1989 to 1993).

Ms. Carter is Vice President - Human Resources of the General Partner effective (since 1996). Previously she was Vice President - Human Resources of Sisters of Mercy Health System, St. Louis, Missouri (1994 to 1996) and President and founding principal of the Touchstone Partnership, Ltd., an organization and management consulting firm based in Philadelphia (1991 to 1994).

Mr. Eynon was elected Controller and Chief Accounting Officer of the General Partner on January 5, 1998. Prior to his election, Mr. Eynon was Controller of the General Partner (March 1997 to January 1998) and Assistant Controller of UGI Corporation (1985 to 1997). Previously, he was a Senior Manager with Price Waterhouse & Co.

Mr. Grady is Vice President - Sales and Operations (since 1995) of the General Partner. He was Vice President - Corporate Development of UGI (1994 to 1995), having been Director, Corporate Development (1990 to 1994). Previously, Mr. Grady was Director, Corporate Development Services of Campbell Soup Company (1985 to 1990).

Mr. Katz is Vice President - Corporate Development of the General Partner (since 1996). He was previously Vice President - Corporate Development of UGI (1995 to 1996). Prior to joining UGI, Mr. Katz was Director of Corporate Development with Campbell Soup Company for over five years. He also practiced law for approximately 10 years, first with the firm of Jones, Day Reavis & Pogue, and later in the Legal Department at Campbell Soup Company.

Mr. Knauss is Vice President - Law and Associate General Counsel of the General Partner (since 1996), having served as Corporate Secretary (since 1994) and Group Counsel - Propane (1989 to 1996) of UGI. He joined UGI as Associate Counsel in 1985. Before joining UGI, Mr. Knauss was an associate at the firm of Ballard, Spahr, Andrews & Ingersoll in Philadelphia.

Mr. Regan is Vice President-Purchasing and Transportation of the General Partner (since May 1996). Prior to joining the General Partner, Mr. Regan was President of the Chemical Division of DSI Transports, Inc. (1995 to 1996). Previously, he served Conoco, Inc. for approximately 20 years, most recently as General Manager Business Support, Downstream-North America.

## ITEM 11. EXECUTIVE COMPENSATION

The following table shows cash and other compensation paid or accrued to the General Partner's Chief Executive Officer and each of its four other most highly compensated executive officers, (collectively, the "Named Executives") for the last three fiscal years.

### SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION			LONG-TERM COMPENSATION		ALL OTHER COMPENSATION (3)
		SALARY	BONUS (1)	OTHER ANNUAL COMPENSATION (2)	AWARDS SECURITIES UNDERLYING OPTIONS/SARS GRANTED (#)	PAYOUTS LONG-TERM INCENTIVE PAYOUTS	
Lon R. Greenberg (4) President, Chairman, and Chief Executive Officer	1998	\$559,616	\$225,000	\$ 8,209	0	\$0	\$ 22,154
	1997	\$509,827	\$425,000	\$ 7,671	200,000 (5)	\$0	\$ 14,233
	1996	\$465,000	\$122,760	\$ 7,359	0	\$0	\$ 10,462
Eugene V.N. Bissell (7) Vice President-Sales and Operations	1998	\$179,728	\$40,545	\$ 2,069	0	\$0	\$ 19,175
	1997	\$169,931	\$74,812	\$50,027	0	\$0	\$ 21,876
	1996	\$123,750	\$ 0	\$ 0	5,000 (6)	\$0	\$ 0
R. Paul Grady (7) Vice President-Sales and Operations	1998	\$174,622	\$43,750	\$ 3,724	0	\$0	\$ 20,231
	1997	\$166,603	\$73,353	\$ 3,281	0	\$0	\$ 23,544
	1996	\$158,704	\$ 0	\$ 7,508	0	\$0	\$ 14,292
Brendan P. Bovaird (4) Vice President and General Counsel	1998	\$176,677	\$42,188	\$ 4,075	0	\$0	\$ 5,425
	1997	\$164,653	\$64,449	\$ 3,769	30,000 (5)	\$0	\$ 4,196
	1996	\$149,999	\$21,853	\$ 1,299	0	\$0	\$ 1,363
Robert H. Knauss Vice President-Law, Associate General Counsel and Corporate Secretary	1998	\$149,835	\$50,405	\$ 2,081	0	\$0	\$ 17,715
	1997	\$136,950	\$48,820	\$ 0	7,000	\$0	\$ 18,175
	1996	\$132,550	\$5,000	\$ 0	0	\$0	\$ 3,375

(1) Messrs. Greenberg and Bovaird participate in the UGI Annual Bonus Plan. All other Named Executives participate in the AmeriGas Partners Annual Bonus Plan. Awards under both Plans are for the year reported, regardless of the year paid. Awards under both Plans are based on the achievement of pre-determined business and/or financial performance objectives which support business plans and goals. Bonus opportunities vary by position and currently range from 0% to 148% of base salary for Mr. Greenberg and 0% to 65% of base salary for Mr. Bovaird. For the other Named Executives, bonus opportunities are limited only by the level of the Partnership's profitability.

(2) Amounts represent tax payment reimbursements for certain benefits, except for Mr. Bissell. In 1997, Mr. Bissell received a tax payment reimbursement of \$7,563, reimbursement of relocation expenses in the amount of \$39,765, and other perquisites available to executive officers generally.

(3) The amounts represent contributions by the General Partner or UGI in accordance with the provisions of the AmeriGas Propane, Inc. Employee Savings Plan (the "AmeriGas Employee Savings Plan"), the UGI Utilities, Inc. Employee Savings Plan (the "UGI Employee Savings Plan"), allocations under the UGI Corporation Senior Executive Retirement Plan (the "UGI Executive Retirement Plan"), and/or allocations under the AmeriGas Propane, Inc. Supplemental Executive Retirement Plan (the "AmeriGas Executive Retirement Plan").

Plan"). During fiscal years 1998, 1997 and 1996, the following contributions were made to the Named Executives: (i) under the AmeriGas Employee Savings Plan: Mr. Bissell, \$5,148, \$4,902, \$0; Mr. Grady, \$6,394, \$7,048, and \$458; and Mr. Knauss, \$5,691, \$7,098 and \$0; (ii) under the UGI Employee Savings Plan: Mr. Greenberg, \$3,600, \$3,375 and \$3,375; and Mr. Bovaird, \$3,600, \$3,375, and \$1,363; (iii) under the UGI Executive Retirement Plan: Mr. Greenberg, \$18,554, \$10,858, and \$7,087; Mr. Grady, \$0, \$0, and \$2,427; and Mr. Bovaird, \$1,852, \$821 and \$0; (iv) under the AmeriGas Executive Retirement Plan: Mr. Bissell, \$14,027, \$16,974, and \$0; Mr. Grady, \$13,837, \$16,496, and \$0; and Mr. Knauss, \$12,024, \$11,077 and \$3,375.

(4) Compensation reported for Messrs. Greenberg and Bovaird is attributable to their respective positions of Chairman, President and Chief Executive Officer, and Vice President and General Counsel of UGI Corporation. Compensation for these individuals is also reported in the UGI Proxy Statement for the 1999 Annual Meeting of Shareholders and is not additive. The General Partner does not compensate Mr. Greenberg or Mr. Bovaird.

(5) Non-qualified stock options granted under the UGI Corporation 1997 Stock Option and Dividend Equivalent Plan. The 1997 Plan provides non-qualified stock option grants and the opportunity for participants to earn an amount equivalent to the dividends paid on shares covered by options, subject to a comparison of the total return realizable on a share of UGI Common Stock ( the "UGI Return") with the total return achieved by each member of a group of comparable peer companies ( the "SODEP Peer Group") over a three-year period beginning January 1, 1997 and ending December 31, 1999. Total return encompasses both changes in the per share market price and dividends paid on a share of UGI Common Stock.

(6) Non-qualified stock options granted under the UGI Corporation 1992 Non-Qualified Stock Option Plan.

(7) Effective October 1, 1996, the General Partner made grants to Messrs.

Bissell, Grady and Knauss under the AmeriGas Propane, Inc. Long-Term Incentive Plan ("LTIP"). Each grant represents the right to receive a like number of Common Units of the Partnership or their cash equivalent, in the discretion of the Compensation/Pension Committee of the Board of Directors, together with a cash payment equal to the distributions which would have been paid on a Common Unit during the performance period if a performance contingency is met. The performance contingency is Partnership financial and operating performance over a minimum of twelve consecutive calendar quarters ending no later than September 30, 2001, such that the Partnership's Subordinated Units convert to Common Units in accordance with the Partnership Agreement. See Note 3 to the Partnership's Consolidated Financial Statements for a summary of the conditions necessary for conversion of the Subordinated Units. No portion of any grant will be paid if the performance contingency is not met by September 30, 2001. Depending on the date of achievement of the contingency, payouts will range from 50% to 150% of the size of the awards shown above. In the event of a change of control, a portion of the grants may become payable pursuant to Agreements between the General Partner and Messrs. Bissell, Grady and Knauss.

As of September 30, 1998, the Long-Term Incentive Plan ("LTIP") grant for each of Mr. Bissell and Mr. Grady represented 10,000 Common Units with a market value of \$238,750. Mr. Knauss's LTIP grant represented 7,000 Common Units with a market value of \$167,125. Market values are based on the September 30, 1998 closing price for the Common Units on the New York Stock Exchange.

**OPTION EXERCISES IN LAST FISCAL YEAR  
AND FISCAL YEAR-END OPTION VALUES**

NAME -----	SHARES ACQUIRED ON EXERCISE (#) -----	VALUE REALIZED -----	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR END (#)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR END	
			EXERCISABLE -----	UNEXERCISABLE -----	EXERCISABLE -----	UNEXERCISABLE -----
Lon R. Greenberg	50,000	\$393,750	93,959 (1) 200,000 (3)	0 0	\$281,877 (2) \$100,000 (4)	\$ 0 \$ 0
Eugene V.N. Bissell	0	\$ 0	2,000 (5)	3,000 (5)	\$5,000 (6)	\$7,500 (6)
R. Paul Grady	0	\$ 0	17,000 (1) 2,000 (5)	0 0	\$51,000 (2) \$6,000 (7)	\$ 0 \$ 0
Brendan P. Bovaird	4,993	\$ 37,448	5,007 (1) 30,000 (3)	0	\$15,021 (2) \$15,000 (4)	\$ 0 \$ 0
Robert H. Knauss	0	\$ 0	1,000 (5)	0	\$3,000	\$ 0

(1) Options granted under the 1992 Stock Option and Dividend Equivalent Plan.

(2) Value based on comparison of price per share at September 30, 1998 (fair market value \$23.125) to 1992 Stock Option and Dividend Equivalent Plan option price (\$20.125).

(3) Options granted under the 1997 Stock Option and Dividend Equivalent Plan.

(4) Value based on comparison of price per share at September 30, 1998 (fair market value \$23.125) to 1997 Stock Option and Dividend Equivalent Plan option price (\$22.625).

(5) Options granted under the 1992 Non-Qualified Stock Option Plan.

(6) Value based on comparison of price per share at September 30, 1998 (fair market value \$23.125) to option grant price at December 18, 1995 (fair market value \$20.625) under the terms of the 1992 Non-Qualified Stock Option Plan.

(7) Value based on comparison of price per share at September 30, 1998 (fair market value \$23.125) to option grant price at January 2, 1992 (fair market value \$20.125) under the terms of the 1992 Non-Qualified Stock Option Plan.

## RETIREMENT BENEFITS

The following table shows the annual benefits payable upon retirement to Messrs. Greenberg and Bovaird under the Retirement Income Plan for Employees of UGI Utilities, Inc. and participating employers (the "UGI Retirement Plan") and the UGI Supplemental Executive Retirement Plan. The amounts shown assume the executive retires in 1998 at age 65, and that the aggregate benefits are not subject to statutory maximums.

### PENSION PLAN BENEFITS TABLE

FINAL 5-YEAR AVERAGE ANNUAL EARNINGS (2)	ANNUAL BENEFIT FOR YEARS OF CREDITED SERVICE SHOWN (1)					
	15 YEARS	20 YEARS	25 YEARS	30 YEARS	35 YEARS	40 YEARS
\$200,000	\$57,000	\$76,000	\$95,000	\$114,000	\$133,000	\$136,800(3)
\$300,000	\$85,500	\$114,000	\$142,500	\$171,000	\$199,500	\$205,200(3)
\$400,000	\$114,000	\$152,000	\$190,000	\$228,000	\$266,000	\$273,600(3)
\$500,000	\$142,500	\$190,000	\$237,500	\$285,000	\$332,500	\$342,000(3)
\$600,000	\$171,000	\$228,000	\$285,000	\$342,000	\$399,000	\$410,400(3)
\$700,000	\$199,500	\$266,000	\$332,500	\$399,000	\$465,500	\$478,800(3)
\$800,000	\$228,000	\$304,000	\$380,000	\$456,000	\$532,000	\$547,200(3)
\$900,000	\$256,500	\$342,000	\$427,500	\$513,000	\$598,500	\$615,600(3)
\$1,000,000	\$285,000	\$380,000	\$475,000	\$570,000	\$665,000	\$684,000(3)
\$1,200,000	\$342,000	\$456,000	\$570,000	\$684,000	\$798,000	\$820,800(3)
\$1,400,000	\$399,000	\$532,000	\$665,000	\$798,000	\$931,000	\$957,600(3)

(1) Annual benefits are computed on the basis of straight life annuity amounts. These amounts include pension benefits, if any, to which a participant may be entitled as a result of participation in a pension plan of a UGI subsidiary during previous periods of employment. The amounts shown do not take into account exclusion of up to 35% of the estimated primary Social Security benefit. The UGI Retirement Plan provides a minimum benefit equal to 25% of a participant's final 12 months' earnings, reduced proportionately for less than 15 years of credited service at retirement. The minimum UGI Retirement Plan Benefit is not subject to Social Security offset. Messrs. Greenberg and Bovaird had 18 and 3 years of estimated credited service, respectively, at September 30, 1998. Mr. Grady previously accumulated more than 4 years of credited service in the UGI Retirement Plan before joining the General Partner in 1995. Mr. Knauss previously accumulated more than 11 years of credited service in the UGI Retirement Plan before joining the General Partner in 1996. Mr. Bissell previously accumulated more than 5 years of credited service with UGI and its subsidiaries before joining the General Partner in 1995.

(2) Consists of (i) base salary, commissions and cash payments under the UGI Annual Bonus Plan, and (ii) deferrals thereof permitted under the Internal Revenue Code.

(3) The maximum benefit under the UGI Retirement Plan and the UGI Supplemental Executive Retirement Plan is equal to 60% of a participant's highest consecutive 12 months' earnings during the last 120 months.



## **SEVERANCE PAY PLAN FOR SENIOR EXECUTIVE EMPLOYEES**

Named Executives Employed by UGI Corporation. The UGI Corporation Senior Executive Employee Severance Pay Plan (the "UGI Severance Plan") assists certain senior level employees of UGI, including Messrs. Greenberg and Bovaird, in the event their employment is terminated without fault on their part. Benefits are payable to a senior executive covered by the UGI Severance Plan if the senior executive's employment is involuntarily terminated for any reason other than for cause or as a result of the senior executive's death or disability.

The UGI Severance Plan provides for cash payments equal to a participant's compensation for a period of time ranging from 3 months to 15 months (30 months in the case of Mr. Greenberg), depending on length of service. In addition, a participant receives the cash equivalent of his or her target bonus under the Annual Bonus Plan, pro-rated for the number of months served in the fiscal year. However, if the termination occurs in the last two months of the fiscal year, the Chief Executive Officer has the discretion to determine whether the participant will receive a pro-rated target bonus, or the actual annual bonus which would have been paid after the end of the fiscal year, assuming that the participant's entire bonus was contingent on meeting the applicable financial performance goal. The Plan also provides for separation pay equal to one day's pay per month of service, not to exceed 12 months' compensation. Certain employee benefits are continued under the Plan for a period of up to 15 months (30 months in the case of Mr. Greenberg). UGI has the option to pay a participant the cash equivalent of those employee benefits.

In order to receive benefits under the UGI Severance Plan, a senior executive is required to execute a release which discharges UGI and its subsidiaries from liability for any claims the senior executive may have against any of them, other than claims for amounts or benefits due to the executive under any plan, program or contract provided by or entered into with UGI or its subsidiaries. The senior executive is also required to cooperate in attending to matters pending at the time of his or her termination of employment.

Named Executives Employed by AmeriGas Propane. The AmeriGas Propane, Inc. Executive Employee Severance Pay Plan (the "AmeriGas Severance Plan") assists certain senior level employees of the General Partner including Messrs. Bissell, Grady and Knauss in the event their employment is terminated without fault on their part. Specified benefits are payable to a senior executive covered by the AmeriGas Severance Plan if the senior executive's employment is involuntarily terminated for any reason other than for cause or as a result of the senior executive's death or disability.

The AmeriGas Severance Plan provides for cash payments equal to a participant's compensation for three months (6 months in the case of the Chief Executive Officer). In addition, a participant receives the cash equivalent of his or her target bonus under the Annual Bonus Plan, pro-rated for the number of months served in the fiscal year. However, if the termination occurs in the last two months of the fiscal year, the Chief Executive Officer has the discretion to determine whether the participant will receive a pro-rated target bonus, or the actual annual bonus which would have been paid after the end of the fiscal year, assuming that the participant's entire

bonus was contingent on meeting the applicable financial performance goal. The Plan also provides for separation pay equal to one day's pay per month of service, not to exceed 12 months' compensation. Minimum separation pay ranges from six to twelve months' base salary, depending on the executive's employment grade. Certain employee benefits are continued under the Plan for a period not exceeding 15 months (30 months in the case of the Chief Executive Officer). This period is called the "Employee Benefit Period." The General Partner has the option to pay a participant the cash equivalent of those employee benefits. The AmeriGas Severance Plan also provides for payment in cash of an amount approximately equal to all distribution equivalents credited (including those that would be credited during the Employee Benefit Period) under the AmeriGas Propane, Inc. 1997 Long-Term Incentive Plan and successor plans.

In order to receive benefits under the AmeriGas Severance Plan, a senior executive is required to execute a release which discharges the General Partner and its affiliates from liability for any claims the senior executive may have against any of them, other than claims for amounts or benefits due to the executive under any plan, program or contract provided by or entered into with the General Partner or its affiliates. The senior executive is also required to cooperate in attending to matters pending at the time of his or her termination of employment.

#### **CHANGE OF CONTROL ARRANGEMENTS**

Named Executives Employed By UGI Corporation. Messrs. Greenberg and Bovaird each have an agreement with UGI Corporation (the "Agreement") which provides certain benefits in the event of a change of control. The Agreements operate independently of the UGI Severance Plan, continue through July 2002, and are automatically extended in one-year increments thereafter unless, prior to a change of control, UGI terminates an Agreement. In the absence of a change of control, each Agreement will terminate when, for any reason, the executive terminates his employment with UGI or its subsidiaries.

A change of control is generally deemed to occur if: (i) any person (other than the executive, his affiliates and associates, UGI or any of its subsidiaries, any employee benefit plan of UGI or any of its subsidiaries, or any person or entity organized, appointed, or established by UGI or its subsidiaries for or pursuant to the terms of any such employee benefit plan), together with all affiliates and associates of such person, acquires securities representing 20% or more of either (x) the then outstanding shares of common stock of UGI or (y) the combined voting power of UGI's then outstanding voting securities, in either case unless the members of the Executive Committee of the Board of Directors in office immediately prior to such acquisition (the "Executive Committee") determine that the circumstances do not warrant the implementation of the provisions of the Agreement; (ii) individuals who at the beginning of any 24-month period constitute the Board of Directors (the "Incumbent Board") and any new director whose election by the Board, or nomination for election by UGI's shareholders, was approved by a vote of at least a majority of the Incumbent Board, cease for any reason to constitute a majority thereof; (iii) UGI is reorganized, merged or consolidated with or into, or sells all or substantially all of its assets to, another corporation in a transaction in which former shareholders of UGI do not own more than 50% of the outstanding common stock and the combined voting power, respectively,

of the then outstanding voting securities of the surviving or acquiring corporation after the transaction, in any such case, unless the Executive Committee determines at the time of such transaction that the circumstances do not warrant the implementation of the provisions of the Agreement; or (iv) UGI is liquidated or dissolved.

Severance benefits are payable under the Agreements if there is a termination of the executive's employment without cause at any time within three years after a change of control. In addition, following a change of control, the executive may elect to terminate his or her employment without loss of severance benefits in certain specified contingencies, including termination of officer status; a significant adverse change in authority, duties, responsibilities or compensation; the failure of UGI to comply with and satisfy any of the terms of the Agreement; or a substantial relocation or excessive travel requirements.

An executive who is terminated with rights to severance compensation under an Agreement will be entitled to receive an amount equal to 1.0 or 1.5 (2.5 in the case of Mr. Greenberg) times his average total cash remuneration for the preceding five calendar years. If the severance compensation payable under the Agreement, either alone or together with other payments to an executive, would constitute "excess parachute payments," as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), the executive will also receive an amount to satisfy the executive's additional tax burden.

Named Executives Employed by the General Partner. Messrs. Bissell, Grady and Knauss each have an agreement with the General Partner (the "Agreement") which provides certain benefits in the event of a change of control. The Agreements operate independently of the AmeriGas Severance Plan, continue through July 2002, and are automatically extended in one-year increments thereafter unless, prior to a change of control, the General Partner terminates an Agreement. In the absence of a change of control, each Agreement will terminate when, for any reason, the executive terminates his employment with the General Partner or any of its subsidiaries.

A change of control is generally deemed to occur if : (i) a change of control of UGI, as defined above, occurs, (ii) the General Partner, AmeriGas Partners or the Operating Partnership is reorganized, merged or consolidated with or into, or sells all or substantially all of its assets to, another corporation or partnership in a transaction in which the former shareholders of the General Partner, or former limited partners, as the case may be, do not own more than 50% of the outstanding common stock and combined voting power, or the outstanding common units of such partnership, after the transaction, unless the Executive Committee of the Board of Directors of the General Partner determines at the time of such transaction that the circumstances do not warrant the implementation of the provisions of the Agreement, (iii) the General Partner, AmeriGas Partners or the Operating Partnership is liquidated or dissolved, (iv) UGI and its subsidiaries fail to own fifty-one percent (51%) of the general partnership interests of AmeriGas Partners or the Operating Partnership, (unless the Executive Committee determines otherwise), (v) UGI and its subsidiaries fail to own fifty-one percent (51%) of the combined voting power of the General Partner's then outstanding voting securities, (unless the Executive Committee determines otherwise), (vi) AmeriGas Propane, Inc. is removed as the general partner of

AmeriGas Partners by vote of the limited partners, or AmeriGas Propane, Inc. is removed as the general partner of AmeriGas Partners or the Operating Partnership as a result of judicial or administrative proceedings.

Severance benefits are payable under the Agreements if there is a termination of the executive's employment without cause at any time within three years after a change of control. In addition, following a change of control, the executive may elect to terminate his or her employment without loss of severance benefits in certain specified contingencies, including termination of officer status; a significant adverse change in authority, duties, responsibilities or compensation; the failure of the General Partner to comply with and satisfy any of the terms of the Agreement; or a substantial relocation or excessive travel requirements.

An executive who is terminated with rights to severance compensation under an Agreement will be entitled to receive an amount equal to 1.0 times his average total cash remuneration for the preceding five calendar years, and, unless payment shall already have been made pursuant to the AmeriGas Propane, Inc. 1997 Long-Term Incentive Plan ("LTIP"), an additional amount representing up to 110% (based on length of service) of the fair market value of the Common Units underlying grants made to the executive under the LTIP. If the severance compensation payable under the Agreement, either alone or together with other payments to an executive, would constitute "excess parachute payments," as defined in Section 280G of the Code, the executive will also receive an amount to satisfy the executive's additional tax burden.

## **BOARD OF DIRECTORS**

Officers of the General Partner receive no additional compensation for service on the Board of Directors or on any Committee of the Board. The General Partner pays an annual retainer of \$22,000 to all other directors and an attendance fee of \$1,000 for each Board meeting. For service on Committees, the General Partner pays an annual retainer of \$2,000 to each Committee Chairman and an attendance fee of \$1,000 for each Committee meeting attended. The General Partner reimburses directors for expenses incurred by them (such as travel expenses) in serving on the Board and Committees. The General Partner determines all expenses allocable to the Partnership, including expenses allocable to the services of directors.

## **COMPENSATION/PENSION COMMITTEE**

The members of the General Partner's Compensation/Pension Committee are Richard C. Gozon (Chairman), Thomas F. Donovan and David I. J. Wang.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN

### BENEFICIAL OWNERS AND MANAGEMENT

#### OWNERSHIP OF LIMITED PARTNERSHIP UNITS BY CERTAIN BENEFICIAL OWNERS

The following table sets forth certain information regarding each person known by the Partnership to have been the beneficial owner of more than 5% of the Partnership's voting securities representing limited partner interests as of December 1, 1998. AmeriGas Propane, Inc. is the sole general partner of the Partnership.

TITLE OF CLASS -----	NAME AND ADDRESS (1) OF BENEFICIAL OWNER -----	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP -----	PERCENT OF CLASS -----
Common Units	UGI Corporation	4,392,858 (2)	19.9%
	AmeriGas, Inc.	4,392,858 (3)	19.9%
	AmeriGas Propane, Inc.	4,392,858 (4)	19.9%
	Petrolane Incorporated	1,407,911 (5)	6.4%
Subordinated Units	UGI Corporation	19,782,146 (2)	100.0%
	AmeriGas, Inc.	19,782,146 (3)	100.0%
	AmeriGas Propane, Inc.	19,782,146 (6)	100.0%
	Petrolane Incorporated	6,432,000 (7)	33.0%

(1) The address of each of UGI, AmeriGas, Inc., AmeriGas Propane, Inc. and Petrolane is 460 North Gulph Road, King of Prussia, PA 19406.

(2) Based on the number of units held by its indirect wholly owned subsidiaries, Petrolane Incorporated ("Petrolane") and AmeriGas Propane, Inc.

(3) Based on the number of units held by its direct and indirect wholly owned subsidiaries, AmeriGas Propane, Inc. and Petrolane.

(4) Includes 2,984,947 Common Units for which AmeriGas Propane, Inc. has sole voting and investment power, and 1,407,911 Common Units held by its subsidiary, Petrolane.

(5) Petrolane has sole voting and investment power.

(6) Includes 13,350,146 Subordinated Units for which AmeriGas Propane, Inc. has sole voting and investment power, and 6,432,000 Subordinated Units held by its subsidiary, Petrolane.

(7) Petrolane has sole voting and investment power.

**OWNERSHIP OF PARTNERSHIP COMMON UNITS BY THE DIRECTORS AND EXECUTIVE OFFICERS OF THE GENERAL PARTNER**

The table below sets forth as of October 31, 1998 the beneficial ownership of Partnership Common Units by each director and each of the Named Executives currently serving the General Partner, as well as by the directors and all of the executive officers of the General Partner as a group. No director, Named Executive or executive officer beneficially owns (i) any Subordinated Units, or (ii) more than 1% of the Partnership's Common Units. The total number of Common Units beneficially owned by the directors and executive officers of the General Partner as a group represents less than 1% of the Partnership's outstanding Common Units.

NAME OF BENEFICIAL OWNER -----	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP (1) -----
Lon R. Greenberg	4,500 (2)
Thomas F. Donovan	1,000
Richard C. Gozon	0
James W. Stratton	1,000
Stephen A. Van Dyck	1,000
Roger B. Vincent	1,000
David I. J. Wang	5,000
Eugene V.N. Bissell	1,500 (3)
Brendan P. Bovaird	400 (4)
R. Paul Grady	2,300
Robert H. Knauss	0
Directors and executive officers as a group (16 persons)	18,300

(1) Sole voting and investment power unless otherwise specified.

(2) 3,000 Units are owned by Mr. Greenberg's adult children; 1,500 Units are held by Mr. Greenberg as custodian for a dependent child.

(3) Mr. Bissell's Units are held jointly with his spouse.

(4) Mr. Bovaird's Units are held jointly with his spouse.

The General Partner is a wholly owned subsidiary of AmeriGas, Inc. which is a wholly owned subsidiary of UGI. The table below sets forth, as of October 31, 1998, the beneficial ownership of UGI Common Stock by each director and each of the Named Executives, as well as by the directors and the executive officers of the General Partner as a group. Including the number of shares of stock underlying exercisable options, Mr. Greenberg is the beneficial owner of approximately 1.2% of UGI's Common Stock. All other directors, Named Executives and executive officers own less than 1% of UGI's outstanding shares. The total number of shares beneficially owned by the directors and executive officers as a group (including 385,466 shares subject to exercisable options), represents approximately 1.8% of UGI's outstanding shares.

NAME OF BENEFICIAL OWNER -----	NUMBER OF SHARES AND NATURE OF BENEFICIAL OWNERSHIP EXCLUDING OPTIONS (1) (2) -----	NUMBER OF STOCK OPTIONS -----	TOTAL -----
Lon R. Greenberg	90,360 (3)	293,959	384,319
Thomas F. Donovan	1,647	0	1,647
Richard C. Gozon	14,184	5,000	19,184
James W. Stratton	9,880	5,000	14,880
Stephen A. Van Dyck	0	0	0
Roger B. Vincent	1,000	0	1,000
David I. J. Wang	21,952	5,000	26,952
Eugene V.N. Bissell	5,815 (4)	2,000	7,815
Brendan P. Bovaird	13,498 (5) (6)	35,007	48,505
R. Paul Grady	8,893	19,000	27,893
Robert H. Knauss	4,504	1,000	5,504
Directors and executive officers as a group (16 persons)	195,648 (6)	385,466	581,114

(1) Sole voting and investment power unless otherwise specified.

(2) Included in the number of shares shown above are Deferred Units ("Units") acquired through the UGI Corporation 1997 Directors' Equity Compensation Plan. Units are neither actual shares nor other securities, but each Unit will be converted to one share of UGI common stock and paid out to directors upon their retirement or termination of service. The number of Units included for the directors is as follows: Messrs. Donovan (630), Gozon (7,639), Stratton (8,335) and Wang (7,407).

(3) Mr. Greenberg's beneficial ownership includes 88,220 shares that he holds jointly with his spouse.

(4) Mr. Bissell's beneficial ownership includes 5,353 shares that he holds jointly with his spouse.

(5) Mr. Bovaird's beneficial ownership includes 12,993 shares that he holds jointly with his spouse.

(6) Includes the number of shares represented by units held in the UGI Stock Fund of the UGI Utilities, Inc. and AmeriGas Propane, Inc. 401  
(k) Employee Savings Plans based on September 30, 1998 Savings Plan statements.



### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The General Partner employs persons responsible for managing and operating the Partnership. The Partnership reimburses the General Partner for the direct and indirect costs of providing these services, including all compensation and benefit costs.

The Operating Partnership has a revolving line of credit up to a maximum of \$20 million from the General Partner available until September 15, 2002, the termination date of the Revolving Credit Facility. Any loans under this agreement will be unsecured and subordinated to all senior debt of the Operating Partnership. The commitment fees for this line of credit are computed on the same basis as the facility fees under the Revolving Credit Facility, and totaled \$70,973 in fiscal year 1998. Interest rates are based on one-month offshore interbank borrowing rates. The interest rate for a recent Credit Facility borrowing from October 3, 1998 to November 23, 1998 was 5.875%, representing a 5.25% one-month Offshore Rate, plus an Applicable Margin of .625%. See Note 4 to the Partnership's Consolidated Financial Statements, which are filed as an exhibit to this report.

The Partnership and the General Partner also have extensive, ongoing relationships with UGI and its affiliates. UGI performs certain financial and administrative services for the General Partner on behalf of the Partnership. UGI does not receive a fee for such services, but is reimbursed for all direct and indirect expenses incurred in connection therewith, including all compensation and benefit costs. A wholly owned subsidiary of UGI provides the Partnership with general liability, automobile and workers' compensation insurance for up to \$500,000 over the Partnership's self-insured retention. Another wholly owned subsidiary of UGI leases office space to the General Partner for its headquarters staff. In addition, a UGI master policy provides accidental death and business travel and accident insurance coverage for employees of the General Partner. The General Partner is billed directly by the insurer for this coverage. As discussed under "Business -- Trade Names; Trade and Service Marks," UGI, Petrolane and the General Partner have licensed the trade names "AmeriGas," "America's Propane Company" and "Petrolane" and the related service marks and trademark to the Partnership on a royalty-free basis. Finally, the Partnership obtains management information services from the General Partner, and reimburses the General Partner for its direct and indirect expenses related to those services. The rental payments and insurance premiums charged to the Partnership by UGI and its affiliates are comparable to amounts charged by unaffiliated parties. In fiscal year 1998, the Partnership paid UGI and its affiliates \$10,573,459 for the services and expense reimbursements referred to in this paragraph.

**PART IV: ADDITIONAL EXHIBITS, SCHEDULES AND REPORTS**

**ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K**

(a) DOCUMENTS FILED AS PART OF THIS REPORT:

(1) and (2) FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

The financial statements and financial statement schedules incorporated by reference or included in this report are listed in the accompanying Index to Financial Statements and Financial Statement Schedules set forth on pages F-2 and F-3 of this report, which is incorporated herein by reference.

(3) LIST OF EXHIBITS:

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

**INCORPORATION BY REFERENCE**

EXHIBIT NO. -----	EXHIBIT -----	REGISTRANT -----	FILING -----	EXHIBIT -----
2.1	Merger and Contribution Agreement among AmeriGas Partners, L.P., AmeriGas Propane, L.P., New AmeriGas Propane, Inc., AmeriGas Propane, Inc., AmeriGas Propane-2, Inc., Cal Gas Corporation of America, Propane Transport, Inc. and NORCO Transportation Company	AmeriGas Partners, L.P.	Registration Statement on Form S-4 (No. 33-92734)	10.21
2.2	Conveyance and Contribution Agreement among AmeriGas Partners, L.P., AmeriGas Propane, L.P. and Petrolane Incorporated	AmeriGas Partners, L.P.	Registration Statement on Form S-4 (No. 33-92734)	10.22
3.1	Amended and Restated Agreement of Limited Partnership of AmeriGas Partners, L.P. dated as of September 18, 1995	AmeriGas Partners, L.P.	Form 10-K (9/30/95)	3.1
3.2	Certificate of Incorporation of AmeriGas Finance Corp.	AmeriGas Partners, L.P.	Registration Statement on Form S-4 (No. 33-92734)	3.3

## INCORPORATION BY REFERENCE

EXHIBIT NO. -----	EXHIBIT -----	REGISTRANT -----	FILING -----	EXHIBIT -----
3.3	Bylaws of AmeriGas Finance Corp.	AmeriGas Partners, L.P.	Registration Statement on Form S-4 (No. 33-92734)	3.4
4.1	Indenture dated as of April 19, 1995 among AmeriGas Partners, L.P., AmeriGas Finance Corp., and first Union National Bank (formerly, First Fidelity Bank, National Association) as Trustee	AmeriGas Partners, L.P.	Form 10-Q 3/31/95	4.1
4.2	Specimen Certificate of Notes	AmeriGas Partners, L.P.	Form 10-Q (3/31/95)	4.2
4.3	Registration Rights Agreement dated as of April 19, 1995 among Donaldson, Lufkin & Jenrette Securities Corporation, Smith Barney, Inc., AmeriGas Partners, L.P. and AmeriGas Finance Corp.	AmeriGas Partners, L.P.	Form 10-Q (3/31/95)	4.3
4.4	Note Agreement dated as of April 12, 1995 among The Prudential Insurance Company of America, Metropolitan Life Insurance Company, and certain other institutional investors and AmeriGas Propane, L.P., New AmeriGas Propane, Inc. and Petrolane Incorporated	AmeriGas Partners, L.P.	Form 10-Q (3/31/95)	10.8
4.5	First Amendment dated as of September 12, 1997 to Note Agreement dated as of April 12, 1995	AmeriGas Partners, L.P.	Form 10-Q (9/30/97)	4.5
*4.6	Second Amendment dated as of September 15, 1998 to Note Agreement dated as of April 12, 1995			
10.1	Amended and Restated Credit Agreement dated as of September 15, 1997 among AmeriGas Propane, L.P., AmeriGas Propane, Inc., Petrolane Incorporated, Bank of America National Trust and Savings Association, as Agent, First Union National Bank, as Syndication Agent and certain banks	AmeriGas Partners, L.P.	Form 10-K (9/30/97)	10.1

## INCORPORATION BY REFERENCE

EXHIBIT NO. -----	EXHIBIT -----	REGISTRANT -----	FILING -----	EXHIBIT -----
*10.2	First Amendment dated as of September 15, 1998 to Amended and Restated Credit Agreement			
10.3	Agreement dated as of May 1, 1996 between TE Products Pipeline Company, L.P., and AmeriGas Propane, L.P., effective until April 1, 2001	AmeriGas Partners, L.P.	Form 10-K (9/30/97)	10.2
10.4	Intercreditor and Agency Agreement dated as of April 19, 1995 among AmeriGas Propane, Inc., Petrolane Incorporated, AmeriGas Propane, L.P., Bank of America National Trust and Savings Association ("Bank of America") as Agent, Mellon Bank, N.A. as Cash Collateral Sub-Agent, Bank of America as Collateral Agent and certain creditors of AmeriGas Propane, L.P.	AmeriGas Partners, L.P.	Form 10-Q (3/31/95)	10.2
10.5	General Security Agreement dated as of April 19, 1995 among AmeriGas Propane, L.P., Bank of America National Trust and Savings Association and Mellon Bank, N.A.	AmeriGas Partners, L.P.	Form 10-Q (3/31/95)	10.3
10.6	Subsidiary Security Agreement dated as of April 19, 1995 among AmeriGas Propane, L.P., Bank of America National Trust and Savings Association as Collateral Agent and Mellon Bank, N.A. as Cash Collateral Agent	AmeriGas Partners, L.P.	Form 10-Q (3/31/95)	10.4
10.7	Restricted Subsidiary Guarantee dated as of April 19, 1995 by AmeriGas Propane, L.P. for the benefit of Bank of America National Trust and Savings Association, as Collateral Agent	AmeriGas Partners, L.P.	Form 10-Q (3/31/95)	10.5
10.8	Trademark License Agreement dated April 19, 1995 among UGI Corporation, AmeriGas, Inc., AmeriGas Propane, Inc., AmeriGas Partners, L.P. and AmeriGas Propane, L.P.	AmeriGas Partners, L.P.	Form 10-Q (3/31/95)	10.6
10.9	Trademark License Agreement dated April 19, 1995 among AmeriGas Propane, Inc., AmeriGas Partners, L.P. and AmeriGas Propane, L.P.	AmeriGas Partners, L.P.	Form 10-Q (3/31/95)	10.7
10.10	Stock Purchase Agreement dated May 27, 1989, as amended and restated July 31, 1989, between Texas Eastern Corporation and QFB Partners	Petrolane Incorporated/ AmeriGas, Inc.	Registration on Form S-1 (No. 33-69450)	10.16(a)

## INCORPORATION BY REFERENCE

EXHIBIT NO. -----	EXHIBIT -----	REGISTRANT -----	FILING -----	EXHIBIT -----
10.11	Amended and Restated Sublease Agreement dated April 1, 1988, between Southwest Salt Co. and AP Propane, Inc. (the "Southwest Salt Co. Agreement")	UGI Corporation	Form 10-K (9/30/94)	10.35
10.12	Letter dated September 26, 1994 pursuant to Article 1, Section 1.2 of the Southwest Salt Co. Agreement re option to renew for period of June 1, 1995 to May 31, 2000	UGI Corporation	Form 10-K (9/30/94)	10.36
10.13	Financing Agreement dated as of November 5, 1997 between AmeriGas Propane, Inc. and AmeriGas Propane, L.P.	AmeriGas Partners, L.P.	Form 10-K (9/30/97)	10.12
10.14	Agreement by Petrolane Incorporated and certain of its subsidiaries parties thereto ("Subsidiaries") for the Sale of the Subsidiaries' Inventory and Assets to the Goodyear Tire & Rubber Company and D.C.H., Inc., as Purchaser, dated as of December 18, 1985	Petrolane Incorporated	Form 10-K (9/23/94)	10.13
10.15**	UGI Corporation 1992 Stock Option and Dividend Equivalent Plan, as amended May 19, 1992	UGI Corporation	Form 10-Q (6/30/92)	10(ee.)
10.16**	UGI Corporation Annual Bonus Plan dated March 8, 1996	UGI Corporation	Form 10-Q (6/30/96)	10.4
10.17**	AmeriGas Partners, L.P. Annual Bonus Plan dated March 8, 1996	AmeriGas Partners, L.P.	Form 10-Q (6/30/96)	10.1
10.18**	1997 Stock Purchase Loan Plan	UGI Corporation	Form 10-K (9/30/97)	10.16
10.19**	UGI Corporation Senior Executive Employee Severance Pay Plan effective January 1, 1997	UGI Corporation	Form 10-K (9/30/97)	10.12
10.20**	AmeriGas Propane, Inc. Executive Employee Severance Pay Plan effective January 1, 1997	AmeriGas Partners, L.P.	Form 10-Q (12/31/96)	10.1
10.21**	Amendment No. 1 to AmeriGas Propane, Inc. Executive Employee Severance Pay Plan	AmeriGas Partners, L.P.	Form 10-Q (6/30/98)	10
10.22**	UGI Corporation 1992 Non-Qualified Stock Option Plan	AmeriGas Partners, L.P.	Form 10-K (9/30/95)	10.19
10.23**	Amendment No. 1 to the UGI Corporation 1992 Non-Qualified Stock Option Plan	UGI Utilities, Inc.	Form 10-Q (6/30/97)	10

## INCORPORATION BY REFERENCE

EXHIBIT NO. -----	EXHIBIT -----	REGISTRANT -----	FILING -----	EXHIBIT -----
10.24**	Form of Change of Control Agreement between UGI Corporation and Lon R. Greenberg	UGI Corporation	Form 10-K (9/30/97)	10.13
10.25**	Form of Change of Control Agreement between UGI Corporation and Brendan P. Bovaird	UGI Corporation	Form 10-K (9/30/97)	10.15
10.26**	Form of Change of Control Agreement between AmeriGas Propane, Inc. and Messrs. Bissell, Grady and Knauss	AmeriGas Partners, L.P.	Form 10-K (9/30/97)	10.25
10.27**	AmeriGas Propane, Inc. 1997 Long-Term Incentive Plan effective October 1, 1996	AmeriGas Partners, L.P.	Form 10-K (9/30/97)	10.26
10.28**	AmeriGas Propane, Inc. Supplemental Executive Retirement Plan effective October 1, 1996	AmeriGas Partners, L.P.	Form 10-K (9/30/97)	10.27
10.29**	UGI Corporation 1997 Stock Option and Dividend Equivalent Plan	UGI Corporation	Form 10-Q (3/31/97)	10.2
10.30**	UGI Corporation Supplemental Executive Retirement Plan Amended and Restated effective October 1, 1996	UGI Corporation	Form 10-Q (6/30/98)	10
*13	Pages 2 through 15 of the AmeriGas Partners, L.P. Annual Report for the year ended September 30, 1998			
*21	Subsidiaries of AmeriGas Partners, L.P.			
*27.1	Financial Data Schedule of AmeriGas Partners, L.P.			
*27.2	Financial Data Schedule of AmeriGas Finance Corp.			

\* Filed herewith.

\*\* As required by Item 14(a)(3), this exhibit is identified as a compensatory plan or arrangement.

(b) Reports on Form 8-K.

During the last quarter of the 1998 fiscal year, neither the Partnership nor AmeriGas Finance Corp. filed any Current Reports on Form 8-K.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

**AMERIGAS PARTNERS, L.P.**

Date: December 14, 1998 By: AmeriGas Propane, Inc. its General Partner

By: Martha B. Lindsay

Martha B. Lindsay Vice President - Finance and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below on December 14, 1998 by the following persons on behalf of the Registrant and in the capacities with AmeriGas Propane, Inc., General Partner, indicated.

SIGNATURE -----	TITLE -----
Lon R. Greenberg ----- Lon R. Greenberg	President, Chairman and Chief Executive Officer (Principal Executive Officer) and Director
Martha B. Lindsay ----- Martha B. Lindsay	Vice President - Finance and Chief Financial Officer (Principal Financial Officer)
Richard R. Eynon ----- Richard R. Eynon	Controller and Chief Accounting Officer (Principal Accounting Officer)

SIGNATURE -----	TITLE -----
Thomas F. Donovan ----- Thomas F. Donovan	Director
Richard C. Gozon ----- Richard C. Gozon	Director
James W. Stratton ----- James W. Stratton	Director
Stephen A. Van Dyck ----- Stephen A. Van Dyck	Director
Roger B. Vincent ----- Roger B. Vincent	Director
David I. J. Wang ----- David I. J. Wang	Director



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

### AMERIGAS FINANCE CORP.

Date: December 14, 1998

By: Martha B. Lindsay

-----  
Martha B. Lindsay  
Vice President - Finance  
and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below on December 14, 1998 by the following persons on behalf of the Registrant and in the capacities indicated.

SIGNATURE	TITLE
Lon R. Greenberg ----- Lon R. Greenberg	President (Principal Executive Officer) and Director
Martha B. Lindsay ----- Martha B. Lindsay	Vice President - Finance and Chief Financial Officer (Principal Financial Officer) and Director
Richard R. Eynon ----- Richard R. Eynon	Controller (Principal Accounting Officer)
Eugene V. N. Bissell ----- Eugene V. N. Bissell	Director
Brendan P. Bovaird ----- Brendan P. Bovaird	Director

**AMERIGAS PARTNERS, L.P  
AMERIGAS FINANCE CORP.**

**FINANCIAL INFORMATION**

**FOR INCLUSION IN ANNUAL REPORT ON**

**FORM 10-K FOR THE FISCAL**

**YEAR ENDED SEPTEMBER 30, 1998**

F-1

# AMERIGAS PARTNERS, L.P. AND SUBSIDIARIES

## INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

The consolidated financial statements of AmeriGas Partners, L.P. and subsidiaries, together with the report thereon of Arthur Andersen LLP dated November 13, 1998, listed in the following index, are included in AmeriGas Partners' 1998 Annual Report to Unitholders and are incorporated herein by reference. With the exception of the pages listed in this index and information incorporated in Items 5 and 8, the 1998 Annual Report to Unitholders is not to be deemed filed as part of this Report.

	Form 10-K (page) -----	Annual Report to Unitholders (page) -----
AmeriGas Partners, L.P. and Subsidiaries		
Financial Statements:		
Report of Independent Public Accountants	Exhibit 13	15
Consolidated Balance Sheets as of September 30, 1998 and 1997	Exhibit 13	2
Consolidated Statements of Operations for the years ended September 30, 1998, 1997 and 1996	Exhibit 13	3
Consolidated Statements of Cash Flows for the years ended September 30, 1998, 1997 and 1996	Exhibit 13	4
Consolidated Statements of Partners' Capital for the years ended September 30, 1998, 1997 and 1996	Exhibit 13	5
Notes to Consolidated Financial Statements	Exhibit 13	6-13
Financial Statement Schedules:		
I - Condensed Financial Information of Registrant (Parent Company)	S-1 to S-3	
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Report of Independent Public Accountants on Financial Statement Schedules	S-6	

**AMERIGAS PARTNERS, L.P. AND SUBSIDIARIES**

**INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES (continued)**

	Form 10-K (page) -----
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We have omitted all other financial statement schedules because the required information is either (1) not present; (2) not present in amounts sufficient to require submission of the schedule; or (3) the information required is included elsewhere in the financial statements or related notes.

**AMERIGAS FINANCE CORP.**

**FINANCIAL STATEMENTS**

for the years ended September 30, 1998, 1997 and 1996

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

**To AmeriGas Finance Corp.:**

We have audited the accompanying balance sheets of AmeriGas Finance Corp. (a Delaware corporation and a wholly owned subsidiary of AmeriGas Partners, L.P.) as of September 30, 1998 and 1997, and the related statements of stockholder's equity for each of the three years in the period ended September 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the balance sheets and statements of stockholder's equity referred to above present fairly, in all material respects, the financial position of AmeriGas Finance Corp. as of September 30, 1998 and 1997, in conformity with generally accepted accounting principles.

**ARTHUR ANDERSEN LLP**

Chicago, Illinois  
November 13, 1998

**AMERIGAS FINANCE CORP.**  
(A WHOLLY OWNED SUBSIDIARY OF AMERIGAS PARTNERS, L.P.)

**BALANCE SHEETS**

	September 30,	
	----- 1998	----- 1997
ASSETS		
Cash	\$1,000	\$1,000
Total assets	\$1,000	\$1,000
	=====	=====
STOCKHOLDER'S EQUITY		
Common stock, \$.01 par value; 100 shares authorized; 100 shares issued and outstanding	\$    1	\$    1
Additional paid-in capital	999	999
Total stockholder's equity	----- \$1,000	----- \$1,000
	=====	=====

The accompanying note is an integral part of these financial statements.

**AMERIGAS FINANCE CORP.**  
(A WHOLLY OWNED SUBSIDIARY OF AMERIGAS PARTNERS, L.P.)

**STATEMENTS OF STOCKHOLDER'S EQUITY**

	Common Stock	Additional Paid-in Capital	Retained Earnings
	-----	-----	-----
BALANCE SEPTEMBER 30, 1996	\$ 1	\$999	\$--
	----	----	---
BALANCE SEPTEMBER 30, 1997	1	999	--
	----	----	---
BALANCE SEPTEMBER 30, 1998	\$ 1	\$999	\$--
	====	====	===

The accompanying note is an integral part of these financial statements.



**AMERIGAS FINANCE CORP.**  
(A WHOLLY OWNED SUBSIDIARY OF AMERIGAS PARTNERS, L.P.)

**NOTE TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 1998 AND 1997**

AmeriGas Finance Corp. (AmeriGas Finance), a Delaware corporation, was formed on March 13, 1995 and is a wholly owned subsidiary of AmeriGas Partners, L.P. (AmeriGas Partners). AmeriGas Partners was formed on November 2, 1994 as a Delaware limited partnership. AmeriGas Partners was formed to acquire and operate the propane businesses and assets of AmeriGas Propane, Inc., a Delaware corporation (AmeriGas Propane), AmeriGas Propane-2, Inc. (AGP-2), and Petrolane Incorporated (Petrolane) through AmeriGas Propane, L.P. (the "Operating Partnership"). AmeriGas Partners holds a 98.99% limited partner interest in the Operating Partnership and AmeriGas Propane, Inc., a Pennsylvania corporation and the general partner of AmeriGas Partners (the "General Partner"), holds a 1.01% general partner interest. On April 19, 1995, (i) pursuant to a Merger and Contribution Agreement dated as of April 19, 1995, AmeriGas Propane and certain of its operating subsidiaries and AGP-2 merged into the Operating Partnership (the "Formation Merger"), and (ii) pursuant to a Conveyance and Contribution Agreement dated as of April 19, 1995, Petrolane conveyed substantially all of its assets and liabilities to the Operating Partnership (the "Petrolane Conveyance"). As a result of the Formation Merger and the Petrolane Conveyance, the General Partner and Petrolane received limited partner interests in the Operating Partnership and the Operating Partnership owns substantially all of the assets and assumed substantially all of the liabilities of AmeriGas Propane, AGP-2 and Petrolane. AmeriGas Propane conveyed its limited partner interest in the Operating Partnership to AmeriGas Partners in exchange for 2,922,235 Common Units and 13,350,146 Subordinated Units of AmeriGas Partners and Petrolane conveyed its limited partner interest in the Operating Partnership to AmeriGas Partners in exchange for 1,407,911 Common Units and 6,432,000 Subordinated Units of AmeriGas Partners. Both Common and Subordinated units represent limited partner interests in AmeriGas Partners.

On April 19, 1995, AmeriGas Partners issued \$100,000,000 face value of 10.125% Senior Notes due April 2007. AmeriGas Finance serves as a co-obligor of these notes.

AmeriGas Partners owns all 100 shares of AmeriGas Finance common stock outstanding.

**AMERIGAS PARTNERS, L.P. AND SUBSIDIARIES**  
**SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (PARENT COMPANY)**

**BALANCE SHEETS**  
(Thousands of dollars)

	September 30,	
	1998	1997
	-----	-----
<b>ASSETS</b>		
Accounts receivable	\$ 5,093	\$ 5,063
Investment in AmeriGas Propane, L.P.	396,844	494,233
Deferred charges	2,609	2,911
	-----	-----
Total assets	\$404,546	\$502,207
	=====	=====
 <b>LIABILITIES AND PARTNERS' CAPITAL</b>		
Accounts payable	\$ 30	\$ 29
Accrued interest	4,641	4,641
	-----	-----
Total current liabilities	4,671	4,670
Long-term debt	100,000	100,000
Partners' capital:		
Common unitholders	157,866	208,253
Subordinated unitholders	139,012	185,310
General partner	2,997	3,974
	-----	-----
Total partners' capital	299,875	397,537
	-----	-----
Total liabilities and partners' capital	\$404,546	\$502,207
	=====	=====

**AMERIGAS PARTNERS, L.P. AND SUBSIDIARIES**  
**SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (PARENT COMPANY)**

**STATEMENTS OF OPERATIONS**  
(Thousands of dollars)

	Year Ended September 30,		
	1998	1997	1996
	-----	-----	-----
Operating income (expenses)	\$ 30	\$ (29)	\$ (36)
Equity in income of AmeriGas Propane, L.P.	31,802	54,439	20,676
Interest expense	(10,430)	(10,430)	(10,402)
	-----	-----	-----
Net income	\$ 21,402	\$ 43,980	\$ 10,238
	=====	=====	=====

**AMERIGAS PARTNERS, L.P. AND SUBSIDIARIES**  
**SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (PARENT COMPANY)**

**STATEMENTS OF CASH FLOWS**  
(Thousands of dollars)

	Year Ended September 30,		
	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 21,402	\$ 43,980	\$ 10,238
Reconciliation of net income to net cash from operating activities:			
Equity in income of AmeriGas Propane, L.P.	(31,802)	(54,438)	(20,676)
Increase in accounts receivable	(30)	--	(113)
Increase (decrease) in accounts payable	1	(37)	35
Increase in accrued interest	--	--	85
Amortization of deferred debt issuance costs	305	306	305
Net cash used by operating activities	(10,124)	(10,189)	(10,126)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Contribution to AmeriGas Propane, L.P.	(12)	(26)	--
Distributions from AmeriGas Propane, L.P.	103,184	103,050	102,853
Net cash provided by investing activities	103,172	103,024	102,853
CASH FLOWS FROM FINANCING ACTIVITIES:			
Distributions	(93,060)	(92,861)	(92,727)
Capital contribution from General Partner	12	26	--
Net cash used by financing activities	(93,048)	(92,835)	(92,727)
Change in cash and cash equivalents	\$ --	\$ --	\$ --
CASH AND CASH EQUIVALENTS:			
End of period	\$ --	\$ --	\$ --
Beginning of period	--	--	--
Change	\$ --	\$ --	\$ --

**AMERIGAS PARTNERS, L.P. AND SUBSIDIARIES**

**SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS**  
(Thousands of dollars)

	Balance at beginning of year -----	Charged (credited) to costs and expenses -----	Other -----	Balance at end of year ----
YEAR ENDED SEPTEMBER 30, 1998				
Reserves deducted from assets in the consolidated balance sheet:				
Allowance for doubtful accounts	\$ 7,875 =====	\$ 4,287	\$ (5,730)(1)	\$ 6,432 =====
Allowance for amortization of other deferred costs	\$ 414 =====	\$ 170	\$ --	\$ 584 =====
Allowance for amortization of deferred financing costs	\$ 3,791 =====	\$ 1,616	\$ --	\$ 5,407 =====
Other reserves:				
Self-insured property and casualty liability	\$ 41,856 =====	\$ 10,606	\$ (10,620)(2)	\$ 41,842 =====
Insured property and casualty liability	\$ 1,801 =====	\$ 2,851	\$ (352)(2)	\$ 4,300 =====
Environmental and other	\$ 19,133 =====	\$ (4,046)	\$ (1,920)(2)	\$ 13,167 =====
YEAR ENDED SEPTEMBER 30, 1997				
Reserves deducted from assets in the consolidated balance sheet:				
Allowance for doubtful accounts	\$ 6,579 =====	\$ 6,986	\$ (5,690)(1)	\$ 7,875 =====
Allowance for amortization of other deferred costs	\$ 244 =====	\$ 170	\$ --	\$ 414 =====
Allowance for amortization of deferred financing costs	\$ 2,238 =====	\$ 1,553	\$ --	\$ 3,791 =====
Other reserves:				
Self-insured property and casualty liability	\$ 42,332 =====	\$ 9,421	\$ (9,897)(2)	\$ 41,856 =====
Insured property and casualty liability	\$ 19,024 =====	\$ 3,345	\$ (20,568)(2)	\$ 1,801 =====
Environmental and other	\$ 15,629 =====	\$ 4,565	\$ (1,126)(2)	\$ 19,133 =====

65 (3)

**AMERIGAS PARTNERS, L.P. AND SUBSIDIARIES**

**SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS (CONTINUED)**

(Thousands of dollars)

	Balance at beginning of year -----	Charged (credited) to costs and expenses -----	Other -----	Balance at end of year ----
YEAR ENDED SEPTEMBER 30, 1996				
Reserves deducted from assets in the consolidated balance sheet:				
Allowance for doubtful accounts	\$ 4,647 =====	\$ 5,568	\$ (3,636) (1)	\$ 6,579 =====
Allowance for amortization of other deferred costs	\$ 74 =====	\$ 170	\$ --	\$ 244 =====
Allowance for amortization of deferred financing costs	\$ 690 =====	\$ 1,548	\$ --	\$ 2,238 =====
Other reserves:				
Self-insured property and casualty liability	\$ 43,908 =====	\$ 12,401	\$ (13,977) (2)	\$ 42,332 =====
Insured property and casualty liability	\$ 12,246 =====	\$ 6,778	\$ --	\$ 19,024 =====
Environmental and other	\$ 25,591 =====	\$ (7,127)	\$ (2,645) (2)  (190) (3)	\$ 15,629 =====

(1) Uncollectible accounts written off, net of recoveries.

(2) Payments.

(3) Other adjustments.

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

To the Partners of AmeriGas Partners, L.P. and the Board of Directors of AmeriGas Propane, Inc.:

We have audited, in accordance with generally accepted auditing standards, the consolidated financial statements included in the AmeriGas Partners, L.P. annual report to unitholders for the year ended September 30, 1998, incorporated by reference in this Form 10-K, and have issued our report thereon dated November 13, 1998. Our audits were made for the purpose of forming an opinion on those consolidated financial statements taken as a whole. The schedules listed in the index on page F-2 are the responsibility of the management of AmeriGas Propane, Inc. and are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

**ARTHUR ANDERSEN LLP**

Chicago, Illinois  
November 13, 1998

## EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
4.6	Second Amendment dated as of September 15, 1998 to Note Agreement dated as of April 12, 1995
10.2	First Amendment dated as of September 15, 1998 to Amended and Restated Credit Agreement dated as of September 15, 1997
13	Pages 2 to 15 of the AmeriGas Partners, L.P. 1998 Annual Report
21	Subsidiaries of AmeriGas Partners, L.P.
27.1	Financial Data Schedule of AmeriGas Partners, L.P.
27.2	Financial Data Schedule of AmeriGas Finance Corp.



## EXHIBIT 4.6

SECOND AMENDMENT dated as of September 15, 1998 (the "Second Amendment") to the NOTE AGREEMENT dated as of April 12, 1995, as amended by the First Amendment dated as of September 12, 1997 (as amended, the "Agreement") by and among AMERIGAS PROPANE, L.P., a Delaware limited partnership (the "Company"), AMERIGAS PROPANE, INC., a Pennsylvania corporation formerly known as New AmeriGas Propane, Inc. (the "General Partner"), PETROLANE INCORPORATED, a Pennsylvania corporation and successor by merger to Petrolane Incorporated, a California corporation ("Petrolane"; the Company, the General Partner and Petrolane being hereinafter collectively referred to as the "Obligors"), and each of the noteholders listed in Schedule I to the Agreement as amended hereby (the "Holders").

WHEREAS, the parties hereto desire to amend the Agreement as set forth below;

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows.

1. Amendments to the Agreement. Effective as of the Effective Date (as hereinafter defined), the Agreement is hereby amended as follows:

1.1 Amendments to Section 10.1.

(a) Section 10.1(f) of the Agreement is hereby amended to read in its entirety as follows:

"(f) the Company may become and remain liable with respect to Indebtedness, in addition to that otherwise permitted by the foregoing subdivisions of this Section 10.1, if on the date the Company becomes liable with respect to any such additional Indebtedness and immediately after giving effect thereto and to the substantially concurrent repayment of any other Indebtedness (i) the ratio of Consolidated Cash Flow to Consolidated Pro Forma Debt Service is equal to or greater than 2.50 to 1.0, and (ii) the ratio of Consolidated Cash Flow to Average Consolidated Pro Forma Debt Service is equal to or greater than 1.25 to 1.0."

1.2 Amendments to Section 10.2.

(a) Section 10.2(m) of the Agreement is hereby amended to read in its entirety as follows:

"(m) Liens (other than the Liens referred to in clauses (j), (k) or (l) above) securing Indebtedness represented by the 1998 Notes or other Indebtedness incurred in accordance with Section 10.1(b) or 10.1(e) or, to the extent incurred (i) to repay Indebtedness or letter of credit obligations incurred and outstanding under the Acquisition Facility or the Revolving Credit Facility (or any extension, renewal, refunding, replacement or refinancing of any such Indebtedness); (ii) to finance the making of expenditures for the improvement or repair (to the extent such improvements and repairs may be capitalized on the books of the Company and the Restricted Subsidiaries in accordance with

GAAP) of or additions (including additions by way of acquisitions or capital contributions of businesses and related assets) to the General Collateral, or

(iii) by assumption in connection with additions (including additions by way of acquisitions or capital contributions of businesses and related assets) to the General Collateral, Section 10.1(f), provided that (1) such Liens are effected through an amendment to the Security Documents to the extent necessary to provide the holders of such Indebtedness equal and ratable security in the property and assets subject to the Security Documents with the holders of the Notes and the other Indebtedness secured under the Security Documents, (2) in the case of Indebtedness incurred in accordance with Section 10.1(b) or 10.1(f) to finance the making of additions to the General Collateral, the Company has delivered to the Collateral Agent an Officers' Certificate demonstrating that the principal amount of such Indebtedness (net of transaction costs funded by the proceeds of such Indebtedness) does not exceed the lesser of the cost to the Company and the Restricted Subsidiaries of such additional property or assets and the fair market value of such additional property or assets at the time of the acquisition thereof (as determined in good faith by the General Partner), and

(3) the Company has delivered to the Collateral Agent an opinion of counsel reasonably satisfactory to the Collateral Agent with regard to the attachment and perfection of the Lien of the Security Documents with respect to such additional property and assets;"

### 1.3 Amendment to Section 13.

(a) Section 13.1 is hereby amended by adding the following definition:

"1998 Notes: the Notes issued in an aggregate principal amount not exceeding \$100,000,000 pursuant to the Note Agreements, each dated as of October \_\_, 1998, among the Company, the General Partner and the purchasers named in Schedule I thereto (but not any extension, refunding or refinancing thereof)."

2. Conditions to Effectiveness of this Second Amendment. This Second Amendment shall become effective only upon the satisfaction in full (or waiver by the Required Holders) of the following conditions precedent (the first date upon which each such condition shall have been so satisfied or waived being herein referred to as the "Effective Date"):

(a) No Defaults. On the Effective Date (after giving effect to this Second Amendment), no Default or Event of Default shall have occurred and be continuing.

(b) Section 8 of the Credit Agreement shall have been amended to provide for substantially the same covenants set forth in Section 10 of the Agreement after giving effect to this Second Amendment. The covenants and events of default set forth in the Credit Agreement shall not have been otherwise amended in any material respect.

(c) Second Amendment. Each of the Obligors and the Required Holders shall have executed this Second Amendment, and counterparts hereof bearing the signatures of the Obligors shall have been delivered to the holders together with a notice from the Company to each holder as to the satisfaction of this condition.

3. Agreement; Terms. Except as expressly amended hereby, the Agreement shall continue in full force and effect in accordance with the provisions thereof on the date hereof, and this Second Amendment shall not be deemed to waive or amend any provision of the Agreement except as expressly set forth herein. As used in the Agreement, the terms "this Agreement," "herein," "hereinafter," "hereunder," "hereto" and words of similar import shall mean and refer to, from and after the Effective Date, unless the context otherwise specifically requires, the Agreement as amended by this Second Amendment. Capitalized terms used and not defined herein shall have the meanings assigned to such terms in the Agreement.

4. Headings. Section headings in this Second Amendment are included herein for convenience of reference only and shall not define, limit or otherwise affect any of the terms or provisions hereof.

5. Counterparts. This Second Amendment may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument, and all signatures need not appear on any one counterpart.

6. Expenses. The Company agrees to pay all reasonable out-of-pocket expenses incurred by the Holders in connection with the preparation of this Second Amendment, including, but not limited to, the reasonable fees, charges and disbursements of one outside special counsel for the Holders as provided for in Section 16.1 of the Agreement.

7. Governing Law. This Second Amendment shall be governed by, and construed in accordance with, the laws of the State of New York (other than any conflicts of law rule which might result in the application of the laws of any other jurisdiction).

8. Ratification and Confirmation of Security Documents. The Company hereby ratifies and confirms the provisions of the Security Documents for the benefit from time to time of the holders of the Notes.

IN WITNESS WHEREOF, the parties hereto have caused this Second Amendment to be executed as of the date first above written.

**AMERIGAS PROPANE, L.P.**

By: AmeriGas Propane, Inc.,  
its general partner

By: Martha B. Lindsay

Martha B. Lindsay Vice President - Finance and Chief Financial Officer

**AMERIGAS PROPANE, INC.**

By: Martha B. Lindsay

Martha B. Lindsay Vice President - Finance and Chief Financial Officer

**PETROLANE INCORPORATED**

By: Martha B. Lindsay

Martha B. Lindsay Vice President - Finance and Chief Financial Officer

**THE PRUDENTIAL INSURANCE COMPANY OF AMERICA**

(registered holder of Notes #RA-1, RA-2,  
RA-4 and RA-5)

By: Robert G. Gwin

Robert G. Gwin Vice President

**PRUCO LIFE INSURANCE COMPANY (registered  
holder of Note #RA-3)**

By: Randall M. Kob

Randall M. Kob Vice President

**METROPOLITAN LIFE INSURANCE COMPANY  
(registered holder of Note #RB-1)**

By: James A. Wiviott

James A. Wiviott Director

**[SIGNATURE PAGE TO SECOND AMENDMENT TO NOTE AGREEMENT]**

**THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE  
UNITED STATES (registered holder of Note  
#RC-1)**

By:

Name:

Title:

CIG & CO. (registered holder of Notes #RC-2,  
RC-3, RC-4, RC-6 and RC-14)

By: James G. Schelling

James G. Schelling Partner

**TEACHERS INSURANCE AND ANNUITY ASSOCIATION  
OF AMERICA (registered holder of Note  
#RC-10)**

By:

Thomas E. Solano Director Private Placements

TRAL & CO ((registered holder of Note #RC-11 (beneficially owned by The Travelers Insurance Company)

By: Frank G. Pattison

Frank G. Pattison Attorney-in-fact

**LINCOLN NATIONAL LIFE INSURANCE COMPANY  
(registered holder of Note #RC-15)**

By: J. Steven Staggs

J. Steven Staggs Vice President

**[SIGNATURE PAGE TO SECOND AMENDMENT TO NOTE AGREEMENT]**

## EXHIBIT 10.2

### FIRST AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT

This FIRST AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT (this "Amendment"), dated as of September 15, 1998, is entered into by and among AMERIGAS PROPANE, L.P., a Delaware limited partnership (the "Company"), AMERIGAS PROPANE, INC., a Pennsylvania corporation (the "General Partner"), PETROLANE INCORPORATED, a Pennsylvania corporation ("Petrolane"; the Company, the General Partner and Petrolane are, collectively, the "Borrowers"), each of the financial institutions that is a signatory to this Amendment (collectively, the "Banks"), BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, as agent for the Banks (in such capacity, the "Agent"), and amends that certain Amended and Restated Credit Agreement, dated as of September 15, 1997 (as the same is in effect immediately prior to the effectiveness of this Amendment, the "Existing Credit Agreement" and as the same may be amended, supplemented or modified and in effect from time to time, the "Credit Agreement"), by and among the Company, the General Partner, Petrolane, the Agent, First Union National Bank, as Syndication Agent and the Banks from time to time party to the Credit Agreement. Capitalized terms used and not otherwise defined in this Amendment shall have the same meanings in this Amendment as set forth in the Credit Agreement, and the rules of interpretation set forth in Section 1.2 of the Credit Agreement shall be applicable to this Amendment.

#### RECITAL

The Company has requested that the Banks amend the definition of "Indebtedness", permit the Borrowers to borrow Offshore Rate Loans with Interest Periods of two weeks and amend Sections 1.1, 8.1(b), 8.1(f) and 8.3(m) under the Existing Credit Agreement, and the Agent and the Banks are willing to agree to so amend the Existing Credit Agreement on the terms and subject to the conditions set forth below.

#### AGREEMENT

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants and agreements set forth below and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

SECTION 1. Amendment. On the terms of this Amendment and subject to the satisfaction of the conditions precedent set forth below in Section 3:

(a) The definition of "Indebtedness" contained in Section 1.1 of the Existing Credit Agreement is hereby amended to read in full as set forth below:

"Indebtedness" of any Person means, without duplication, (a) all indebtedness for borrowed money; (b) all obligations issued, undertaken or assumed as the

deferred purchase price of property or services (other than trade payables and accrued expenses arising in the ordinary course of business on ordinary terms);

(c) all non-contingent reimbursement or payment obligations with respect to Surety Instruments; (d) all obligations evidenced by notes, bonds, debentures or similar instruments, including obligations so evidenced incurred in connection with the acquisition of property, assets or businesses; (e) all indebtedness created or arising under any conditional sale or other title retention agreement, or incurred as financing, in either case with respect to property acquired by the Person (even though the rights and remedies of the seller or bank under such agreement in the event of default are limited to repossession or sale of such property); (f) all Capitalized Lease Liabilities; (g) all indebtedness referred to in clauses (a) through (f) above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien upon or in property (including accounts and contracts rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness; (h) all Redeemable Capital Stock of such Person valued at the greater of its voluntary or involuntary maximum fixed repurchase price plus accrued dividends; (i) any Preferred Stock of any Subsidiary of such Person valued at the sum of the liquidation preference thereof or any mandatory redemption payment obligations in respect thereof plus, in either case, accrued dividends thereon and (j) all Guaranty Obligations in respect of indebtedness or obligations of others of the kinds referred to in clauses (a) through (i) above.

(b) The definition of "Interest Period" contained in Section 1.1 of the Existing Credit Agreement is hereby amended by adding the words "two weeks or" before the words "one, two, three or six months" in the fourth line of such definition.

(c) The definition of "Loan Documents" contained in Section 1.1 of the Existing Credit Agreement is hereby amended by adding the words "the First Amendment to Amended and Restated Credit Agreement, dated as of September 15, 1998, among the Borrowers, the Banks and the Agent," after the words "this Agreement".

SECTION 2. Amendment. On the terms of this Amendment and subject to the satisfaction of the conditions precedent set forth below in Section 4:

(a) The following definition is hereby added to Section 1.1 of the Credit Agreement in its appropriate alphabetical order:

"1998 Mortgage Notes" means the First Mortgage Notes, in aggregate principal amount not exceeding \$100,000,000, issued pursuant to the Note Agreements, each dated as of October \_\_, 1998, among the Company, the General Partner and the purchasers named in Schedule I thereto (but not any extension, refunding or refinancing thereof)."

(b) Section 8.1(b) of the Existing Credit Agreement is hereby amended to read in its entirety as follows:

"(b) the Company may become and remain liable with respect to Indebtedness incurred by the Company (i) to finance the making of expenditures for the improvement or repair (to the extent such improvements and repairs may be capitalized on the

books of the Company in accordance with GAAP) of or additions (including additions by way of acquisitions or capital contributions of businesses and related assets) to the General Collateral or (ii) by assumption in connection with additions (including additions by way of acquisitions or capital contributions of businesses and related assets) to the General Collateral, including borrowings under the Acquisition Commitment, or to extend, renew, refund or refinance any such Indebtedness;"

(c) Section 8.1(f) of the Existing Credit Agreement is hereby amended to read in its entirety as follows:

"(f) the Company may become and remain liable with respect to Indebtedness, in addition to that otherwise permitted by the foregoing subdivisions of this Section 8.1, if on the date the Company becomes liable with respect to any such additional Indebtedness and immediately after giving effect thereto and to the substantially concurrent repayment of any other Indebtedness

(i) the ratio of Consolidated Cash Flow to Consolidated Pro Forma Debt Service is equal to or greater than 2.50 to 1.0 and (ii) the ratio of Consolidated Cash Flow to Average Consolidated Pro Forma Debt Service is equal to or greater than 1.25 to 1.0;"

(d) Section 8.3(m) of the Existing Credit Agreement is hereby amended to read in its entirety as follows:

"(m) Liens (other than the Liens referred to in clauses (j),

(k) and (l) above) securing Indebtedness represented by the 1998 Mortgage Notes or other Indebtedness incurred in accordance with Section 8.1(b) or 8.1(e) or, to the extent incurred (i) to repay Indebtedness or letter of credit obligations incurred and outstanding under the Acquisition Commitment or the Revolving Commitment (or any extension, renewal, refunding, replacement or refinancing of any such Indebtedness), (ii) to finance the making of expenditures for the improvement or repair (to the extent such improvements and repairs may be capitalized on the books of the Company and the Restricted Subsidiaries in accordance with GAAP) of or additions (including additions by way of acquisitions or capital contributions of businesses and related assets) to the General Collateral, or (iii) by assumption in connection with additions (including additions by way of acquisitions or capital contributions of businesses and related assets) to the General Collateral, in accordance with Section 8.1(f), provided that (1) such Liens are effected through an amendment to the Security Documents to the extent necessary to provide the holders of such Indebtedness equal and ratable security in the property and assets subject to the Security Documents with the Banks and holders of the other Indebtedness secured under the Security Documents, (2) in the case of Indebtedness incurred in accordance with Section 8.1(b) or Section 8.1(f) to finance the making of additions to the General Collateral, the Company has delivered to the Collateral Agent an Officers' Certificate demonstrating that the principal amount of such Indebtedness (net of transaction costs funded by proceeds of such Indebtedness) does not exceed the lesser of the cost to the Company and the Restricted Subsidiaries of such additional property or assets and the fair market value of such additional property or assets at the time of the acquisition thereof (as determined in good faith by the General Partner) and (3) the Company has delivered to the Collateral Agent an opinion of counsel reasonably satisfactory to the Collateral Agent to the effect that the Lien of the Security Documents has attached and is perfected (or will



attach and be perfected upon the taking of one or more actions) with respect to such additional property and assets;"

SECTION 3. Conditions to Effectiveness of Section 1 Amendments. The amendments set forth in Section 1 of this Amendment shall become effective only upon the satisfaction of all of the following conditions precedent (the date of satisfaction of all such conditions being referred to as the "Amendment Effective Date"):

(a) On or before the Amendment Effective Date, the Agent shall have received, on behalf of the Banks, this Amendment, duly executed and delivered by the Company, the General Partner, Petrolane, each Restricted Subsidiary, the Required Banks and the Agent.

(b) The Agent shall have received a certificate from a Responsible Officer of the Company certifying that (1) all governmental actions or filings necessary for the execution, delivery and performance of this Amendment shall have been made, taken or obtained, and no order, statutory rule, regulation, executive order, decree, judgment or injunction shall have been enacted, entered, issued, promulgated or enforced by any court or other governmental entity which prohibits or restricts the transactions contemplated by this Amendment nor shall any action have been commenced or threatened seeking any injunction or any restraining or other order to prohibit, restrain, invalidate or set aside the transactions contemplated by this Amendment and (2) each of the representations and warranties set forth in this Amendment is true and correct as of the Amendment Effective Date.

(c) The Agent shall have received evidence, dated on or about July, 1998, from independent insurance brokers or consultants demonstrating that insurance complying with the provisions of the Collateral Agency Agreement shall be in full force and effect.

SECTION 4. Conditions to Effectiveness of Section 2 Amendments. The amendments set forth in Section 2 of this Amendment shall become effective only upon the satisfaction of all of the conditions precedent set forth in Section 3 and the following additional conditions precedent (the date of satisfaction of all such conditions being referred to as the "Second Amendment Effective Date"):

(a) On or before the Second Amendment Effective Date, either (i) the Agent shall have received, on behalf of the Banks, a First Amendment to Intercreditor and Agency Agreement, in substantially the form of Exhibit A hereto, duly executed and delivered by the General Obligors, the Requisite Banks, the Requisite Note Holders, the Agent, the Collateral Agent and the Cash Collateral Sub-Agent (in each case as defined in the Collateral Agency Agreement) or, in the alternative (ii) the Company shall be bound by the terms set forth in Sections 6 and 7 below.

(b) On or before the Second Amendment Effective Date, the Agent shall have received, on behalf of the Banks, evidence that each of the Borrowers and the Required Holders (as defined in the Note Agreements) has consented to the amendment of Sections 10.1(f) and

10.2(m) of the Note Agreements in form and substance substantially similar to the amendments of Sections 8.1(f) and 8.3(m) contained in this Amendment.

SECTION 5. The Borrowers' Representations and Warranties. In order to induce the Banks to enter into this Amendment and to amend the Existing Credit Agreement in the manner provided in this Amendment, the Company, the General Partner and Petrolane represent and warrant to each Bank as of the Amendment Effective Date as follows:

(a) Power and Authority. The Company has all requisite partnership power and authority to enter into this Amendment and to carry out the transactions contemplated by, and perform its obligations under, the Existing Credit Agreement as amended by this Amendment (hereafter referred to as the "Amended Credit Agreement"). The General Partner has all requisite corporate power and authority to enter into this Amendment in its individual capacity and in its capacity as the sole general partner of the Company and to carry out the transactions contemplated by, and perform its obligations under, the Amended Credit Agreement. Petrolane has all requisite corporate power and authority to enter into this Amendment and to carry out the transactions contemplated by, and perform its obligations under, the Amended Credit Agreement. Each Restricted Subsidiary has all requisite corporate power and authority to enter into this Amendment and to carry out the transactions contemplated by, and perform its obligations under, the Security Documents.

(b) Authorization of Agreements. The execution and delivery of this Amendment by the Company, the General Partner, Petrolane and each Restricted Subsidiary and the performance of the Amended Credit Agreement by the Company, the General Partner and Petrolane have been duly authorized by all necessary action, and this Amendment has been duly executed and delivered by the Company, the General Partner, Petrolane and each Restricted Subsidiary.

(c) Enforceability. The Amended Credit Agreement constitutes the legal, valid and binding obligation of the Company, the General Partner and Petrolane enforceable against the Company, the General Partner and Petrolane in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, moratorium or similar laws affecting creditors' rights generally.

(d) No Conflict. The execution, delivery and performance by each of the Company, the General Partner, Petrolane and the Restricted Subsidiaries of this Amendment, and the performance by each of the Company, the General Partner, Petrolane and the Restricted Subsidiaries of the Amended Credit Agreement do not and will not (i) violate (x) any provision of the Partnership Agreement or the certificate or articles of incorporation or other Organization Documents of the Company, the General Partner, Petrolane or any of their respective Subsidiaries, (y) any applicable law, ordinance, rule or regulation of any Governmental Authority or any applicable order, judgment or decree of any court, arbitrator or Governmental Authority, or (z) any provision of any agreement or instrument to which the Company, the General Partner, Petrolane or any of their respective Subsidiaries is a party or by which any of its properties is bound, except (in the case of clauses (y) and (z) above) for such violations which would not,

individually or in the aggregate, present a reasonable likelihood of having a Material Adverse Effect, or (ii) result in the creation of (or impose any express obligation on the part of the Borrowers to create) any Lien not permitted by Section 8.3.

(e) Governmental Consents. Except for Routine Permits, (i) no consent, approval or authorization of, or declaration or filing with, any Governmental Authority is required for the valid execution, delivery and performance of this Amendment by the Company, the General Partner, Petrolane and the Restricted Subsidiaries.

(f) Representations and Warranties in the Credit Agreement. The Company, the General Partner and Petrolane confirm that, as of the Amendment Effective Date, (i) the representations and warranties contained in Article VI of the Credit Agreement are (before and after giving effect to this Amendment) true and correct in all material respects (except to the extent such representations and warranties expressly relate to an earlier time or date, in which case they shall have been true and correct in all material respects as of such earlier time or date) with the same effect as if made on and as of the Amendment Effective Date and (ii) that no Default or Event of Default has occurred and is continuing.

(g) Liens. As of the Amendment Effective Date, there are no Liens on the General Collateral other than Liens permitted under Section 8.3 of the Credit Agreement.

(h) Subsidiaries. As of the Amendment Effective Date, the Company has no Restricted Subsidiaries other than AmeriGas Propane Parts & Service, Inc.

SECTION 6. Affirmative Covenant. In the event that the Agent shall not have received a duly executed First Amendment to Intercreditor and Agency Agreement in substantially the form of Exhibit A hereto on or before the date of issuance of the 1998 Mortgage Notes, the Company hereby agrees to obtain and deliver to the Agent, as promptly as practicable, but in any event within 30 days after the date of issuance of the 1998 Mortgage Notes, title endorsements or their equivalents, in form and substance reasonably satisfactory to the Collateral Agent, with respect to the title insurance policies listed on Schedule I hereto.

SECTION 7. Further Agreements. The parties hereby acknowledge and agree that:

(a) Except as set forth in Section 7(b) below, in the event of any future issuance of Parity Debt the Company shall deliver to the Agent, as promptly as practicable, but in any event within 10 Business Days after the date of issuance of such Parity Debt, title endorsements or their equivalents, in form and substance reasonably satisfactory to the Collateral Agent, with respect to the title insurance policies issued in connection with the Mortgages listed on Schedule I hereto and any title insurance policies obtained by the Company pursuant to Section 7.10 of the Credit Agreement.

(b) In the event that, at any time after the date hereof, the Company shall have delivered to the Agent a duly executed First Amendment to Intercreditor and Agency Agreement in substantially the form of Exhibit A hereto, the Company shall have no obligation,

and shall not be required, to obtain or deliver title endorsements or their equivalents for any Mortgaged Property in connection with any issuance of Parity Debt.

SECTION 8. Miscellaneous.

(a) Reference to and Effect on the Existing Credit Agreement and the Other Loan Documents.

(i) Except as specifically amended by this Amendment and the documents executed and delivered in connection herewith, the Existing Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed. This Amendment shall be a "Loan Document" under the Credit Agreement.

(ii) The execution and delivery of this Amendment and performance of the Amended Credit Agreement shall not, except as expressly provided herein, constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of the Banks under, the Existing Credit Agreement or any other Loan Document.

(iii) Upon the conditions precedent set forth herein being satisfied, this Amendment shall be construed as one with the Existing Credit Agreement, and the Existing Credit Agreement shall, where the context requires, be read and construed throughout so as to incorporate this Amendment.

(b) Fees and Expenses. The Company, the General Partner and Petrolane acknowledge that all reasonable costs, fees and expenses incurred in connection with this Amendment will be paid in accordance with Section 11.4 of the Existing Credit Agreement.

(c) Headings. Section and subsection headings in this Amendment are included for convenience of reference only and shall not constitute a part of this Amendment for any other purpose or be given any substantive effect.

(d) Counterparts. This Amendment may be executed in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

(e) Governing Law. This Amendment shall be governed by and construed according to the laws of the State of New York.

(f) Resolutions. Concurrently with the issuance by the Company of the 1998 Mortgage Notes, the Company will deliver to the Agent copies of partnership authorizations for the Company and resolutions of the board of directors of each of the General Partner, Petrolane and the Restricted Subsidiaries authorizing and ratifying the transactions contemplated

hereby and by the First Amendment to Intercreditor and Agency Agreement, certified by the Secretary or an Assistant Secretary of such Person.

IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment as of the date first above written.

AMERIGAS PROPANE, L.P., a Delaware limited partnership

By: AMERIGAS PROPANE, INC.  
Its: General Partner

By: \_\_\_\_\_ Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**AMERIGAS PROPANE, INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**PETROLANE INCORPORATED**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**AGENT**

**BANK OF AMERICA NATIONAL TRUST AND  
SAVINGS ASSOCIATION, as Agent**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**BANKS**

**BANK OF AMERICA NATIONAL TRUST AND  
SAVINGS ASSOCIATION, as a Bank and an  
Issuing Bank**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**FIRST UNION NATIONAL BANK, as a Bank and  
as Syndication Agent**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



**THE BANK OF NEW YORK**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**CORESTATES BANK, N.A.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**MELLON BANK, N.A.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**THE FIRST NATIONAL BANK OF MARYLAND**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**THE BANK OF TOKYO - MITSUBISHI LTD.,  
NEW YORK BRANCH**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**PNC BANK, NATIONAL ASSOCIATION**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**UNION BANK OF CALIFORNIA, N.A.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

The undersigned hereby acknowledges and consents to the foregoing First Amendment to Amended and Restated Credit Agreement, reaffirms the terms of its Restricted Subsidiary Guarantee in favor of Bank of America National Trust and Savings Association, as Collateral Agent and acknowledges that such Restricted Subsidiary Guarantee remains in full force and effect in accordance with its terms.

Dated: \_\_\_\_\_

AMERIGAS PROPANE PARTS & SERVICE,  
INC., as Guarantor

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_



**EXHIBIT A**

See attached.

**FIRST AMENDMENT  
TO INTERCREDITOR AND AGENCY AGREEMENT**

This FIRST AMENDMENT TO INTERCREDITOR AND AGENCY AGREEMENT (this "Amendment"), dated as of September 15, 1998, is entered into by and among AMERIGAS PROPANE, L.P., a Delaware limited partnership (the "Company"), AMERIGAS PROPANE, INC., a Pennsylvania corporation (the "General Partner"), PETROLANE INCORPORATED, a Pennsylvania corporation ("Petrolane"; the Company, the General Partner and Petrolane are, collectively, the "General Obligors"), the original purchasers of the Notes as set forth in Schedule I to the Existing Intercreditor Agreement (as defined below) and any successors or assigns thereof (the "Note Holders"), BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, a national banking association, in its capacity as Agent under the Intercreditor Agreement and any successors or assigns thereof (in such capacity, the "Agent"), BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, a national banking association, in its capacity as Collateral Agent for the Secured Creditors (the "Collateral Agent") and MELLON BANK, N.A., a national banking association, in its capacity as Cash Collateral Sub-Agent for the Secured Creditors (the "Cash Collateral Sub-Agent"), and amends that certain Intercreditor and Agency Agreement, dated as of April 19, 1995 (as the same is in effect immediately prior to the effectiveness of this Amendment, the "Existing Intercreditor Agreement" and as the same may be amended, supplemented or modified and in effect from time to time, the "Intercreditor Agreement"), by and among the General Obligors, the Note Holders, the Agent, the Collateral Agent and the Cash Collateral Sub-Agent. Capitalized terms used and not otherwise defined in this Amendment shall have the same meanings in this Amendment as set forth in the Intercreditor Agreement.

**RECITAL**

The Company has requested that the Banks amend Appendix A to, and Sections 4 and 6(a) of, the Existing Intercreditor Agreement, and the Agent and the Banks are willing to agree to so amend the Existing Intercreditor Agreement on the terms and subject to the conditions set forth below.

**AGREEMENT**

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants and agreements set forth below and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

SECTION 1. Amendment. On the terms of this Amendment and subject to the satisfaction of the conditions precedent set forth below in Section 2:

(a) The following definitions are hereby added to Appendix A to the Existing Intercreditor Agreement:

"Affected Parity Debt" shall mean, collectively, the Parity Debt held by the Affected Parity Lenders.

"Affected Parity Lenders" shall mean, collectively, those Parity Lenders, if any, whose Parity Debt Obligations are secured by Group B Property.

"Application Date" shall mean each date on which the Collateral Agent applies the proceeds, and makes payment of such amounts to the Banks, the Note Holders and the Non-Affected Lenders, of (a) any casualty, damage, destruction, taking by eminent domain of any Group B Property received by it in accordance with Section 4(a)(ii) of this Agreement or (b) any sale or collection or any other monies received by it in accordance with Section 4(e) of this Agreement.

"Group A Proceeds" shall mean, collectively, the proceeds of any sale or collection or any other monies received by the Collateral Agent in respect of any Group A Property (including without limitation by reason of any taking of possession, entry, removal or holding, operation or management of the Security or any part thereof) under the Mortgages, the General Security Agreement, the Subsidiary Security Agreement, the Subsidiary Guarantee or any other Security Document (including without limitation all proceeds received by the Collateral Agent under title insurance policies).

"Group A Property" shall mean, collectively, all Collateral and Mortgaged Properties other than the Group B Properties.

"Group B Proceeds" shall mean, collectively, the proceeds of any sale or collection or any other monies received by the Collateral Agent in respect of any Group B Property (including without limitation by reason of any taking of possession, entry, removal or holding, operation or management of the Security or any part thereof) under the Mortgage or Mortgages, if any, applicable to such Group B Property (including without limitation all proceeds received by the Collateral Agent under title insurance policies).

"Group B Property" shall mean, in respect of each issuance of Parity Debt, any Mortgaged Property, if any, on which a valid and perfected lien or encumbrance (other than the liens and encumbrances permitted under the Credit Agreement and the Note Agreements) has attached during the period from and after the last date on which the Collateral Agent has received a title insurance policy or an endorsement to a title insurance policy on such Mortgaged Property through and including the date on which the holders of such Parity Debt extend the full principal amount available in respect of such Parity Debt.

"Non-Affected Lenders" shall mean, collectively, those Secured Creditors other than the Affected Parity Lenders.

"Non-Affected Parity Debt" shall mean, collectively, the Parity Debt held by the Non-Affected Lenders.

"Non-Affected Parity Debt Obligations" shall mean, collectively, all Obligations arising under or in connection with the Non-Affected Parity Debt.

"Percentage" shall mean, as of any date of determination with respect to any Non-Affected Lender, the ratio of (a) the Obligations owing to such Non-Affected Lender in respect of its Notes, Bank Notes or Parity Debt, as applicable, on such date (before giving effect to any new loans or extensions of credit made by such Non-Affected Lender to any General Obligor on such date) to (b) the Total Non-Affected Obligations on such date.

"Total Non-Affected Obligations" shall mean, as of any date of determination, the aggregate amount of all Obligations in respect of the Notes, the Bank Notes and the Non-Affected Parity Debt outstanding on such date (before giving effect to any new loans or extensions of credit made by the Secured Creditors to the General Obligors on such date).

(b) Section 4 of the Existing Intercreditor Agreement is hereby amended to read in its entirety as set forth below:

Section 4. Application of Moneys by Collateral Agent. All moneys received by the Collateral Agent in respect of the Security, including all moneys received by the Collateral Agent under the Mortgages, the General Security Agreement, the Subsidiary Security Agreement, the Subsidiary Guarantee or any other Security Document, shall, promptly upon receipt, be deposited in an account into which the Collateral Agent shall deposit all amounts received by it in its capacity as Collateral Agent and be applied as follows:

(a) Upon a casualty, damage, destruction or a taking by eminent domain of all or any portion of the properties or assets of the Company or the Restricted Subsidiaries, the Company shall elect, as evidenced by an Officers' Certificate (which should also contain a calculation of Excess Taking Proceeds) within ninety (90) days of such event, whether or not to restore such properties or assets, or portion thereof. In the event the Company shall elect not to restore, or shall fail to make any election within said ninety (90) day period:

(i) All proceeds from any casualty, damage, destruction or taking by eminent domain of any Group A Property constituting Excess Taking Proceeds shall be paid to the Collateral Agent and shall be equally and ratably applied to the prepayment of (x) the Notes as provided in Section 9.3(b) of the Note Agreements, (y) the Bank Notes as provided in Section 2.7(c) of the Credit Agreement and (z) the Parity Debt in accordance with the terms of the Taking Proceeds Sharing Provisions of the Parity Debt Agreements, provided that, if a General Event of Default shall have occurred and be continuing, such amounts shall be applied in accordance with the priorities set forth in subsection (d) below. The aggregate amount of Excess Taking Proceeds to be applied to the prepayment of the Notes, the Bank Notes and the Parity Debt shall be an amount determined by multiplying the amount of Excess Taking Proceeds by a fraction, the numerator of which, in the case of the Notes, is the aggregate principal amount of the

Notes, in the case of the Bank Notes, is the aggregate of all Commitments and in the case of (I) revolving Parity Debt, is the aggregate commitment amount in respect of such Parity Debt (the "Parity Debt Revolving Commitment") and (II) other Parity Debt, is the aggregate principal amount of such Parity Debt, and the denominator of which is the sum of the aggregate principal amount of the Notes, the Commitments, the Parity Debt Revolving Commitment and the aggregate principal amount of Parity Debt (other than revolving Parity Debt) at the time outstanding.

(ii) All proceeds from any casualty, damage, destruction or taking by eminent domain with respect to any Group B Property constituting Excess Taking Proceeds shall be paid to the Collateral Agent and shall be equally and ratably applied to the prepayment of (x) the Notes as provided in Section 9.3(b) of the Note Agreements, (y) the Bank Notes as provided in Section 2.7(c) of the Credit Agreement and (z) the Non-Affected Parity Debt in accordance with the terms of the Taking Proceeds Sharing Provisions of the applicable Parity Debt Agreements, provided that, if a General Event of Default shall have occurred and be continuing, such amounts shall be applied in accordance with the priorities set forth in subsection (e) below. The aggregate amount of Excess Taking Proceeds to be applied to the prepayment of the Notes, the Bank Notes and the Non-Affected Parity Debt shall be an amount determined by multiplying the amount of Excess Taking Proceeds by a fraction, the numerator of which, in the case of the Notes, is the aggregate principal amount of the Notes, in the case of the Bank Notes, is the aggregate of all Commitments, and in the case of (I) revolving Non-Affected Parity Debt is the aggregate commitment amount in respect of such Non-Affected Parity Debt (the "Non-Affected Parity Debt Revolving Commitment") and (II) other Non-Affected Parity Debt, is the aggregate principal amount of such Non-Affected Parity Debt and the denominator of which is the sum of the aggregate principal amount of the Notes, the Commitments at the time outstanding, the Non-Affected Parity Debt Revolving Commitment at the time outstanding and, without duplication, the aggregate principal amount of all Non-Affected Parity Debt (other than revolving Non-Affected Parity Debt).

(b) All proceeds of business interruption insurance maintained by the Company and the Restricted Subsidiaries, if any, received by the Collateral Agent shall be applied as follows:

(i) such proceeds shall, unless a General Default or General Event of Default exists, be paid over or assigned to the Company or as it may direct; and

(ii) if a General Default or General Event of Default exists, such proceeds shall be held by the Collateral Agent as part of the Security and shall be applied in accordance with the priorities set forth in subsection (d) below.

(c) All proceeds received from the Company by the Collateral Agent on account of voluntary sale, lease, abandonment or other disposition of any of the assets of the Company or any Restricted Subsidiary constituting Excess Sale Proceeds in

accordance with Section 10.7(c) of the Note Agreements, Section 8.8(c) of the Credit Agreement and the Sale Proceeds Sharing Provisions of the Parity Debt Agreements shall be applied as follows:

(i) such Excess Sale Proceeds shall, unless such Excess Sale Proceeds are required to be used to prepay the Notes in accordance with Section 9.3(a) of the Note Agreements, the Bank Notes in accordance with Section 2.7(a) of the Credit Agreement and the Parity Debt in accordance with the Sale Proceeds Sharing Provisions of the Parity Debt Agreements or a General Default or General Event of Default exists, be paid over to the Company or as it may direct from time to time for the acquisition of replacement assets or other productive assets in accordance with Section 10.7(c)(ii)(B) of the Note Agreements, Section 8.8(c)(ii)(B) of the Credit Agreement and the Sale Proceeds Sharing Provisions of the Parity Debt Agreements, but only upon delivery by the Company of duly executed amendments and/or supplements (including additional mortgages or deeds or trust) to the Security Documents to cause such property or assets to become part of the General Collateral and to be subject to the Lien of the Security Documents, if required under Section 10.14 or 10.15 of the Note Agreements, or Section 7.9 or 7.10 of the Credit Agreement, or the Security Documents together with a title policy in form reasonably satisfactory to the Requisite Percentage if such property or asset (x) is to be secured by a Mortgage and (y) has a fair market value (determined in good faith by the General Partner) or acquisition cost in excess of \$500,000;

(ii) if such Excess Sale Proceeds are required to be used to prepay the Notes, the Bank Notes and the Parity Debt in accordance with Section 9.3(a) of the Note Agreements, Section 2.7(a) of the Credit Agreement and the Sale Proceeds Sharing Provisions of the Parity Debt Agreements, respectively, such Excess Sale Proceeds shall be applied pro rata in the manner calculated in clause (a) above to prepay the Notes, the Bank Notes and the Parity Debt as provided in Section 9.3(a) of the Note Agreements, Section 2.7(a) of the Credit Agreement and the Sale Proceeds Sharing Provisions of the Parity Debt Agreements, respectively;

(iii) if any Excess Sale Proceeds remain after the application of such Excess Sale Proceeds to the prepayment of the Notes, the Bank Notes and the Parity Debt pursuant to subparagraph (ii) above, and no General Default or General Event of Default exists, the Collateral Agent shall deliver such remaining Excess Sale Proceeds to the Company; and

(iv) if a General Default or General Event of Default exists, such Excess Sale Proceeds shall be held by the Collateral Agent as part of the Security and shall be applied in accordance with the priorities set forth in subsection (d) or subsection (e) below, as applicable.

(d) All Group A Proceeds as to which specific provision for the application of such monies has not heretofore been made in this Section 4 shall be applied to pay:

First: all reasonable fees, costs and expenses of the Collateral Agent and of the Cash Collateral Sub-Agent hereunder and all fees, costs and expenses, including but not limited to those of the Collateral Agent (including without limitation attorneys' fees and expenses) of (1) entering upon, taking possession of, holding, operating and managing the Security, or any part thereof, and any Impositions prior to the Liens of the Security Documents and (2) the sale of the Security or the General Collateral or any part thereof;

Second: all amounts of principal, interest and premium (including without limitation prepayment or "breakage" fees or costs and, in the case of the Notes, any Make Whole Amounts) at the time due and payable on the Notes, the Bank Notes and the Parity Debt at the time outstanding (whether at stated maturity or as an installment or by prepayment, acceleration, declaration or otherwise), including interest (to the extent permitted under applicable law) on any overdue principal, interest and premium (including without limitation prepayment or "breakage" fees or costs and, in the case of the Notes, Make Whole Amounts) on the Notes, the Bank Notes or any Parity Debt at the rate provided therefor in the Note Agreements, the Credit Agreement or the Parity Debt Agreements, as the case may be; and in case such monies shall be insufficient to pay in full the amounts so due and unpaid on all the Notes, the Bank Notes and the Parity Debt, then first, all amounts of interest at the time due and payable on the Notes, the Bank Notes and the Parity Debt, second, all amounts constituting premium (including without limitation prepayment or "breakage" fees or costs and, in the case of the Notes, Make Whole Amounts) at the time due and payable on the Notes, the Bank Notes and the Parity Debt, and third, all amounts of principal at the time due and payable on the Notes, the Outstanding Bank Obligations and the Parity Debt; and all such payments shall be made ratably and equally to the Note Holders, the Banks and the Parity Lenders entitled thereto, with each Note Holder, Bank or Parity Lender receiving that fraction of the total of all such amounts paid to the Note Holders, the Banks and the Parity Lenders as the aggregate amount of the type of obligation (e.g., principal, interest or premium) owed to each such Note Holder, Bank or Parity Lender bears to the sum of the aggregate amounts of said type of obligation owed to all the Note Holders, Banks and Parity Lenders;

Third: any Obligations secured by any Security Document and at the time due and owing, including without limitation any Note Obligations, Credit Obligations or Parity Debt Obligations other than amounts referred to in subdivisions First and Second above and in case such monies should be insufficient to pay in full the amounts so due and unpaid, all such payments shall be made ratably and equally to the Persons entitled thereto, each Person receiving that

fraction of the total of all such amounts paid to all such Persons as the amount due to such Person bears to the sum of the amounts due to all such Persons; and

Fourth: the balance, if any, to the General Obligors or as they may direct if all conditions to the termination of this Agreement specified in Section 17 shall have been fulfilled, but if any such condition shall not have been fulfilled, to be held by the Collateral Agent and thereafter applied to any other payments required to be made in accordance with subdivisions First to Third, inclusive, above.

(e) All Group B Proceeds as to which specific provision for the application of such monies has not heretofore been made in this Section 4 shall be applied to pay:

First: all reasonable fees, costs and expenses of the Collateral Agent and of the Cash Collateral Sub-Agent hereunder and all fees, costs and expenses, including but not limited to those of the Collateral Agent (including without limitation attorneys' fees and expenses) of (1) entering upon, taking possession of, holding, operating and managing the Security, or any part thereof, and any Impositions prior to the Liens on the Group B Property and (2) the sale of the Security or the General Collateral or any part thereof;

Second: all amounts of principal, interest and premium (including without limitation prepayment or "breakage" fees or costs and, in the case of the Notes, any Make Whole Amounts) at the time due and payable on the Notes, the Bank Notes and the Non-Affected Parity Debt at the time outstanding (whether at stated maturity or as an installment or by prepayment, acceleration, declaration or otherwise), including interest (to the extent permitted under applicable law) on any overdue principal, interest and premium (including without limitation prepayment or "breakage" fees or costs and, in the case of the Notes, Make Whole Amounts) on the Notes, the Bank Notes or the Non-Affected Parity Debt at the rate provided therefor in the Note Agreements, the Credit Agreement or the applicable Parity Debt Agreements, as the case may be; and in case such monies shall be insufficient to pay in full the amounts so due and unpaid on all the Notes, the Bank Notes or the Non-Affected Parity Debt, then first, all amounts of interest at the time due and payable on the Notes, the Bank Notes and the Non-Affected Parity Debt, second, all amounts constituting premium (including without limitation prepayment or "breakage" fees or costs and, in the case of the Notes, Make Whole Amounts) at the time due and payable on the Notes, the Bank Notes and the Non-Affected Parity Debt, and third, all amounts of principal at the time due and payable on the Notes, the Outstanding Bank Obligations and the Non-Affected Parity Debt Obligations; and all such payments shall be made ratably and equally to the Non-Affected Lenders entitled thereto, with each Non-Affected Lender receiving that fraction of the total of all such amounts paid to the Non-Affected Lenders as the aggregate amount of the type of obligation (e.g., principal, interest or premium)



owed to each such Non-Affected Lender bears to the sum of the aggregate amounts of said type of obligation owed to all the Non-Affected Lenders;

Third: any Obligations secured by any Security Document (other than the Obligations in respect of Affected Parity Debt) and at the time due and owing, including without limitation any Note Obligations, Credit Obligations or Non-Affected Parity Debt Obligations other than amounts referred to in subdivisions First and Second above and in case such monies should be insufficient to pay in full the amounts so due and unpaid, all such payments shall be made ratably and equally to the Persons entitled thereto, each Person receiving that fraction of the total of all such amounts paid to all such Persons as the amount due to such Person bears to the sum of the amounts due to all such Persons; and

Fourth: the balance, if any, to the General Obligors or as they may direct if all conditions to the termination of this Agreement specified in Section 17 shall have been fulfilled, but if any such condition shall not have been fulfilled, to be held by the Collateral Agent and thereafter applied to any other payments required to be made in accordance with subdivisions First to Third, inclusive, above.

(f) Pending application in accordance with subsections (a) through (e) of this Section 4, all monies received by the Cash Collateral Sub-Agent hereunder shall be invested at the written direction of the Company in (collectively, the "Permitted Investments"):

(i) marketable obligations issued or unconditionally guaranteed by the United States of America, or issued by any agency thereof and backed by the full faith and credit of the United States of America, in each case maturing one year or less from the date of acquisition thereof,

(ii) marketable direct obligations issued by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof maturing within one year from the date of acquisition thereof and having as at such date the highest rating obtainable from either S&P or Moody's,

(iii) commercial paper maturing no more than 270 days from the date of creation thereof and having as at the date of acquisition thereof one of the two highest ratings obtainable from either S&P or Moody's,

(iv) certificates of deposit maturing one year or less from the date of acquisition thereof issued by Permitted Banks,

(v) Eurodollar time deposits having a maturity of less than 270 days from the date of acquisition thereof purchased directly from any Permitted Bank,

(vi) bankers' acceptances eligible for rediscount under requirements of The Board of Governors of the Federal Reserve System and accepted by Permitted Banks, and

(vii) obligations of the type described in clause (i), (ii),

(iii), (iv) or (v) above purchased from a securities dealer designated as a "primary dealer" by the Federal Reserve Bank of New York or from a Permitted Bank as counterparty to a written repurchase agreement obligating such counterparty to repurchase such obligations not later than 14 days after the purchase thereof and which provides that the obligations which are the subject thereof are held for the benefit of the Company or a Restricted Subsidiary subject to the rights of the Cash Collateral Sub-Agent, the Collateral Agent and the Secured Creditors under the Financing Agreements by a custodian which is a Permitted Bank and which is not a counterparty to the repurchase agreement in question.

(g) On each Application Date, each Affected Parity Lender shall, and each Affected Parity Lender hereby agrees to, irrevocably sell a participation interest in, without recourse or warranty of any kind whatsoever (except that each such Affected Parity Lender shall warrant that it is the legal and beneficial owner of the Affected Parity Debt participated by it under this Section 4(g) and that such Affected Parity Debt is held by such Affected Parity Lender free and clear of adverse claims), to each Non-Affected Lender, and each Non-Affected Lender shall, and each Non-Affected Lender hereby agrees to, irrevocably acquire from each Affected Parity Lender, a participation interest in the principal amount of the Affected Parity Debt of such Affected Parity Lender (each, an "Acquired Portion") outstanding on the Application Date in an amount equal to (1) such Non-Affected Lender's Percentage on such Application Date multiplied by (2) such Affected Parity Lender's pro rata portion of the amount of Group B Proceeds that would have been received by all Affected Parity Lenders had such Group B Proceeds been applied as Group A Proceeds in accordance with the terms of Section 4(a)(i) or Section 4(d), as the case may be. The Collateral Agent shall notify each Secured Creditor of the amount required to be paid by or to each Secured Creditor at or before 9:00 a.m. San Francisco time on the Application Date. Such participation and acquisition shall be effective on the Application Date automatically and without any action required on the part of any party other than the payment by the Non-Affected Lenders to the Collateral Agent for the account of the Affected Parity Lenders of an aggregate amount equal to the Acquired Portion, which amount shall be allocated and paid by the Collateral Agent at or before 12:00 p.m. San Francisco time on the Application Date to each Affected Parity Lender pro rata based upon the respective reductions in the principal amount of the Affected Parity Debt held by such Affected Parity Lender on the Application Date. Each of the Collateral Agent and the Secured Creditors shall adjust its records accordingly to reflect the payment of the Acquired Portion. The application of proceeds on each Application Date and the payment thereof to each Non-Affected Lender shall be made by the Collateral Agent at or before 10:00 a.m. San Francisco time on such date in Dollars and immediately available funds and payment to be made in respect of the Acquired Portion shall

be made by the Non-Affected Lenders to the Collateral Agent in Dollars in immediately available funds at or before 11:00 a.m. San Francisco time on the Application Date."

(h) Section 6(a) of the Existing Intercreditor Agreement is hereby amended by deleting the word "and" at the end of clause (iii), replacing the "." at the end of clause (iv) with "; and" and adding the following as clause (v) of Section 6(a):

"(v) the Company shall have delivered to the Collateral Agent an Officers' Certificate in which the Company represents and warrants to the Cash Collateral Sub-Agent, the Collateral Agent, the Agent, the Banks, the Parity Lenders, if any, the Parity Agent, if any, and each Note Holder that, as of the date of the incurrence of such Indebtedness, there are no Liens on the General Collateral other than Liens permitted under Section 8.3 of the Credit Agreement, Section 10.2 of the Note Agreements and any applicable provision of any Parity Debt Agreement."

SECTION 2. Conditions to Effectiveness. The amendments set forth in Section 1 of this Amendment shall become effective only upon the satisfaction of the following condition precedent (the date of satisfaction of such condition being referred to as the "Amendment Effective Date"):

On or before the Amendment Effective Date, the Collateral Agent shall have received, on behalf of the Secured Creditors, this Amendment, duly executed and delivered by each of the General Obligors, the Requisite Note Holders, the Requisite Banks, the Agent, the Collateral Agent and the Cash Collateral Sub-Agent.

SECTION 3. The General Obligors' Representations and Warranties. In order to induce the Collateral Agent, the Agent, the Banks, the Note Holders and the Cash Collateral Sub-Agent to enter into this Amendment and to amend the Existing Intercreditor Agreement in the manner provided in this Amendment, each General Obligor represents and warrants to each of the Collateral Agent, the Agent, the Banks, the Note Holders and the Cash Collateral Sub-Agent as of the Amendment Effective Date as follows:

(a) Power and Authority. The Company has all requisite partnership power and authority to enter into this Amendment and to carry out the transactions contemplated by, and perform its obligations under, the Existing Intercreditor Agreement as amended by this Amendment (hereafter referred to as the "Amended Intercreditor Agreement"). The General Partner has all requisite corporate power and authority to enter into this Amendment in its individual capacity and in its capacity as the sole general partner of the Company and to carry out the transactions contemplated by, and perform its obligations under, the Amended Intercreditor Agreement. Petrolane has all requisite corporate power and authority to enter into this Amendment and to carry out the transactions contemplated by, and perform its obligations under, the Amended Intercreditor Agreement. Each Restricted Subsidiary has all requisite corporate power and authority to enter into this Amendment and to carry out the transactions contemplated by, and perform its obligations under, the Amended Intercreditor Agreement.

(b) Authorization of Agreements. The execution and delivery of this Amendment by the Company, the General Partner, Petrolane and each Restricted Subsidiary and the performance of the Amended Intercreditor Agreement by the Company, the General Partner, Petrolane and each Restricted Subsidiary have been duly authorized by all necessary action, and this Amendment has been duly executed and delivered by the Company, the General Partner, Petrolane and each Restricted Subsidiary.

(c) Enforceability. The Amended Intercreditor Agreement constitutes the legal, valid and binding obligation of the Company, the General Partner, Petrolane and each Restricted Subsidiary enforceable against the Company, the General Partner, Petrolane and each Restricted Subsidiary in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, moratorium or similar laws affecting creditors' rights generally.

(d) No Conflict. The execution, delivery and performance by each of the Company, the General Partner, Petrolane and the Restricted Subsidiaries of this Amendment, and the performance by each of the Company, the General Partner, Petrolane and the Restricted Subsidiaries of the Amended Intercreditor Agreement do not and will not (i) violate (x) any provision of the Partnership Agreement or the certificate or articles of incorporation or other Organization Documents of the Company, the General Partner, Petrolane or any of their respective Subsidiaries, (y) any applicable law, ordinance, rule or regulation of any Governmental Authority or any applicable order, judgment or decree of any court, arbitrator or Governmental Authority, or (z) any provision of any agreement or instrument to which the Company, the General Partner, Petrolane or any of their respective Subsidiaries is a party or by which any of its properties is bound, except (in the case of clauses (y) and (z) above) for such violations which would not, individually or in the aggregate, present a reasonable likelihood of having a Material Adverse Effect, or (ii) result in the creation of (or impose any express obligation on the part of the General Obligors to create) any Lien not permitted by Section 8.3 of the Credit Agreement and Section 10.2 of the Note Agreements.

(e) Governmental Consents. Except for Routine Permits, (i) no consent, approval or authorization of, or declaration or filing with, any Governmental Authority is required for the valid execution, delivery and performance of this Amendment by the Company, the General Partner, Petrolane and the Restricted Subsidiaries.

(f) Representations and Warranties in the Intercreditor Agreement. The Company, the General Partner and Petrolane confirm that, as of the Amendment Effective Date, that no General Default or General Event of Default has occurred and is continuing.

(g) Liens. As of the Amendment Effective Date, there are no Liens on the General Collateral other than Liens permitted under Section 8.3 of the Credit Agreement and Section 10.2 of the Note Agreements.

(h) Subsidiaries. As of the Amendment Effective Date, the Company has no Restricted Subsidiaries other than AmeriGas Propane Parts & Service, Inc.

SECTION 4. Acknowledgment. Each of the Banks and the Note Holders acknowledges that (a) except as otherwise agreed by the Company, no amendments to Mortgages or title insurance endorsements will be obtained in connection with any issuance of Parity Debt and (b) endorsements with respect to title insurance policies (and any amendments to Mortgages required in connection therewith) were obtained as set forth on Schedule I hereto.

SECTION 5. Miscellaneous.

(a) Reference to and Effect on the Existing Intercreditor Agreement and the Security Documents.

(i) Except as specifically amended by this Amendment and the documents executed and delivered in connection herewith, the Existing Intercreditor Agreement and the Security Documents shall remain in full force and effect and are hereby ratified and confirmed.

(ii) The execution and delivery of this Amendment and performance of the Amended Intercreditor Agreement shall not, except as expressly provided herein, constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of the Banks under, the Existing Intercreditor Agreement or any Security Document.

(iii) Upon the conditions precedent set forth herein being satisfied, this Amendment shall be construed as one with the Existing Intercreditor Agreement, and the Existing Intercreditor Agreement shall, where the context requires, be read and construed throughout so as to incorporate this Amendment.

(b) Fees and Expenses. The Company, the General Partner and Petrolane acknowledge that all reasonable costs, fees and expenses incurred in connection with this Amendment will be paid in accordance with Section 11 of the Intercreditor Agreement, Section 11.4 of the Credit Agreement and Section 16.1 of the Note Agreements.

(c) Headings. Section and subsection headings in this Amendment are included for convenience of reference only and shall not constitute a part of this Amendment for any other purpose or be given any substantive effect.

(d) Counterparts. This Amendment may be executed in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

(e) Governing Law. This Amendment shall be governed by and construed according to the laws of the State of New York.

IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment as of the date first above written.

AMERIGAS PROPANE, L.P., a Delaware limited partnership

By: AMERIGAS PROPANE, INC.  
Its: General Partner

By: \_\_\_\_\_ Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**AMERIGAS PROPANE, INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**PETROLANE INCORPORATED**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**AMERIGAS PROPANE PARTS & SERVICE,  
INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**NOTE HOLDERS**

**THE PRUDENTIAL INSURANCE COMPANY OF AMERICA**

(registered holder of Notes #RA-1, RA-2,  
RA-4 and RA-5)

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**PRUCO LIFE INSURANCE COMPANY**  
(registered holder of Note #RA-3)

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



**METROPOLITAN LIFE INSURANCE  
COMPANY (registered holder of Note #RB-1)**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE  
UNITED STATES (registered holder of Note  
#RC-1)**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

CIG & CO. (registered holder of Notes #RC-2, RC-3, RC-4, RC-6 and RC-14 (beneficially owned by Connecticut General Life Insurance Company); registered holder of Note #RA-7 (beneficially owned by Century Indemnity Company); Note #RC-12 (beneficially owned by Insurance Company of North America); and Note #RC-13 (beneficially owned by Life Insurance Company of North America))

By: \_\_\_\_\_ Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**TEACHERS INSURANCE AND ANNUITY  
ASSOCIATION OF AMERICA (registered  
holder of Note #RC-10)**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

TRAL & CO (registered holder of Note #RC-11 (beneficially owned by Travelers Insurance Company))

By: \_\_\_\_\_ Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**LINCOLN NATIONAL LIFE INSURANCE COMPANY**  
(registered holder of Note #RC-15)

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**AGENT**

**BANK OF AMERICA NATIONAL TRUST AND  
SAVINGS ASSOCIATION, as Agent**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**BANKS**

**BANK OF AMERICA NATIONAL TRUST AND  
SAVINGS ASSOCIATION, as a Bank and an  
Issuing Bank**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



**FIRST UNION NATIONAL BANK, as a Bank and  
as Syndication Agent**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**THE BANK OF NEW YORK**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**CORESTATES BANK, N.A.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**MELLON BANK, N.A.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**THE FIRST NATIONAL BANK OF MARYLAND**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**THE BANK OF TOKYO - MITSUBISHI LTD.,  
NEW YORK BRANCH**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**PNC BANK, NATIONAL ASSOCIATION**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**UNION BANK OF CALIFORNIA, N.A.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_



**COLLATERAL AGENT**

**BANK OF AMERICA NATIONAL TRUST AND SAVINGS  
ASSOCIATION, as Collateral Agent**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**CASH COLLATERAL SUB-AGENT**

MELLON BANK, N.A., as Cash Collateral Sub-  
Agent

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**SCHEDULE I**

ADDRESS	AMENDED MORTGAGE	TITLE POLICY ENDORSEMENT
Osyart Road, Bumstead, Maricopa County, AZ*	Recorded 3/27/98 Instrument #98-0241615	Policy #137-00-003-314 Dated 3/27/98
2110 N. Gaffey Street, San Pedro, Los Angeles County, CA*	N/A	Policy #137-00-005-303 Dated 9/15/97
2675 N. Temple Avenue, Signal Hill, Los Angeles County, CA	N/A	Policy #135-00-538-760 Dated 9/15/97
16800 South Main Street, Carson, Los Angeles County, CA	N/A	Policy #135-00-538-761 Dated 9/15/97
9608 Cherry Avenue, Fontana, San Bernardino County, CA	N/A	Policy #82-03-134-439 Dated 9/15/97
295 E. Virginia Street, San Jose, Santa Clara County, CA	N/A	Policy #135-00-525-911 Dated 9/15/97
232 Mt. Hermon Road, Scotts Valley, Santa Cruz County, CA	N/A	Policy #112-00-398-650 Dated 9/15/97
52 Lower Bartlett Road, Waterford, New London County, CT	Recorded 9/29/97 Vol. 0473 Page 0132	Policy #112-00-689253 Dated 9/29/97
10052 N.W. 89th Avenue, Medley, Dade County, FL	Recorded 10/2/97 17814 Page 0674 Instrument #97R448821	Policy #82-02-875613 Dated 5/11/98
1830 East 3rd Street, Panama City, Bay County, FL*	Recorded 10/23/97 Book 1744 Page 1774 File #97049929	Policy #82-01-853324 Dated
2715 Woodwin Road, Doraville, DeKalb County, GA	Recorded 9/29/97 Book 9634 Page 143	Policy #112-00-273266 Dated 11/25/97
Lot 2999, Honolulu, Honolulu County, HI	N/A	Policy #T107-42270 Dated 9/15/97
Lot 53 of "THE MILLYARD SUBDIVISION", Halieu (Maui), Maui County, HI	N/A	Policy #T107-42270 Dated 9/15/97
2400 Terminal Drive, Arlington Hts., Cook County, IL	N/A	Policy #112-00-3737437 Dated 6/21/95
3801 South Cicero Avenue, Cicero, Cook County, IL	N/A	Policy #112-00-737438 Dated 6/21/95
2801 East 175th Street, Lansing, Cook County, IL	N/A	Policy #112-00-73439 Dated 6/21/95
522 South Vermont Street, Palatine, Cook County, IL	N/A	Policy #112-00-737440 Dated 6/21/95
6300 Cliffdale Road, Fayetteville, Cumberland County, NC	N/A	Policy 112-00-838604 Dated 9/25/97

\*Leasehold mortgage

**SCHEDULE I**

Route 206, Bordentown, Burlington County, NJ	Recorded 10/1/97 MB6976 Page 273	Policy #112-02-239349 Dated 10/1/97
Route 24, Chester, Morris County, NJ	Recorded 10/1/97 MB7212 Page 47	Policy #112-02-239350 Dated 5/5/98

\*Leasehold mortgage

**EXHIBIT 13**

**CONSOLIDATED BALANCE SHEETS  
(THOUSANDS OF DOLLARS)**

	SEPTEMBER 30,	
	1998	1997
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (note 2)	\$ 8,873	\$ 4,069
Accounts receivable (less allowances for doubtful accounts of \$6,432 and \$7,875, respectively)	58,778	78,341
Inventories (notes 2 and 6)	49,394	64,933
Prepaid propane purchases (note 2)	770	21,700
Prepaid expenses and other current assets	15,531	14,048
<b>Total current assets</b>	<b>133,346</b>	<b>183,091</b>
Property, plant and equipment (less accumulated depreciation and amortization of \$205,083 and \$167,385, respectively) (notes 2 and 7)	442,042	444,677
Intangible assets (less accumulated amortization of \$141,382 and \$116,557, respectively) (notes 2 and 8)	629,355	677,116
Other assets (note 2)	12,473	13,777
<b>Total assets</b>	<b>\$1,217,216</b>	<b>\$1,318,661</b>
<b>LIABILITIES AND PARTNERS' CAPITAL</b>		
Current liabilities:		
Current maturities of long-term debt (note 4)	\$ 6,068	\$ 6,420
Bank loans (note 4)	10,000	28,000
Accounts payable--trade	34,075	50,055
Accounts payable--related parties (note 10)	6,799	4,533
Employee compensation and benefits accrued	19,962	17,776
Interest accrued	28,053	27,700
Refunds and deposits	25,938	20,314
Other current liabilities (note 11)	29,402	26,071
<b>Total current liabilities</b>	<b>160,297</b>	<b>180,869</b>
Long-term debt (note 4)	702,926	684,308
Other noncurrent liabilities	50,069	50,904
Commitments and contingencies (note 9)		
Minority interest (note 2)	4,049	5,043
Partners' capital (note 8):		
Common Unitholders (units issued--22,105,993 and 22,060,407, respectively)	157,866	208,253
Subordinated Unitholders (units issued--19,782,146)	139,012	185,310
General Partner	2,997	3,974
<b>Total partners' capital</b>	<b>299,875</b>	<b>397,537</b>
<b>Total liabilities and partners' capital</b>	<b>\$1,217,216</b>	<b>\$1,318,661</b>

The accompanying notes are an integral part of these financial statements.

AmeriGas Partners, L.P. 1998 Annual Report

**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(THOUSANDS OF DOLLARS, EXCEPT PER UNIT)

	YEAR ENDED SEPTEMBER 30,		
	1998	1997	1996
Revenues (note 2):			
Propane	\$ 834,627	\$ 994,200	\$ 924,810
Other	79,751	83,625	88,415
	914,378	1,077,825	1,013,225
Costs and expenses:			
Cost of sales--propane	410,713	563,959	526,255
Cost of sales--other	33,047	36,413	43,472
Operating and administrative expenses (note 10)	320,220	316,392	317,396
Depreciation and amortization (note 2)	63,225	62,004	61,631
Other income, net (note 13)	(745)	(11,316)	(8,395)
	826,460	967,452	940,359
Operating income	87,918	110,373	72,866
Interest expense	(66,189)	(65,658)	(62,782)
Income before income taxes	21,729	44,715	10,084
Income tax (expense) benefit (note 2)	(3)	(180)	365
Minority interest (note 2)	(324)	(555)	(211)
Net income	\$ 21,402	\$ 43,980	\$ 10,238
General partner's interest in net income	\$ 214	\$ 440	\$ 102
Limited partners' interest in net income	\$ 21,188	\$ 43,540	\$ 10,136
Income per limited partner unit	\$ .51	\$ 1.04	\$ .24
Average limited partner units outstanding (thousands)	41,886	41,799	41,729

The accompanying notes are an integral part of these financial statements.

AmeriGas Partners, L.P. 1998 Annual Report

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(THOUSANDS OF DOLLARS)

	YEAR ENDED SEPTEMBER 30,		
	1998	1997	1996
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 21,402	\$ 43,980	\$ 10,238
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	63,225	62,004	61,631
Other, net	(2,825)	3,939	(3,438)
	81,802	109,923	68,431
Net change in:			
Accounts receivable	15,904	1,511	(27,802)
Inventories and prepaid propane purchases	36,774	(3,110)	(3,192)
Accounts payable	(14,187)	5,101	12,708
Other current assets and liabilities	12,625	(3,259)	(1,767)
Net cash provided by operating activities	132,918	110,166	48,378
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Expenditures for property, plant and equipment	(31,577)	(24,470)	(21,908)
Proceeds from disposals of property, plant and equipment	5,153	10,613	5,423
Decrease in short-term investments	--	--	9,000
Acquisitions of businesses, net of cash acquired	(8,076)	(11,627)	(20,909)
Net cash used by investing activities	(34,500)	(25,484)	(28,394)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Distributions	(93,060)	(92,861)	(92,727)
Minority interest activity	(1,039)	(1,024)	(1,042)
Increase (decrease) in bank loans	(18,000)	6,000	15,000
Issuance of long-term debt	23,000	8,131	37,009
Repayment of long-term debt	(4,527)	(3,007)	(10,911)
Capital contribution from General Partner	12	26	--
Partnership Formation fees and expenses	--	--	(4,758)
Net cash used by financing activities	(93,614)	(82,735)	(57,429)
Cash and cash equivalents increase (decrease)	\$ 4,804	\$ 1,947	\$(37,445)
<b>CASH AND CASH EQUIVALENTS</b>			
End of period	\$ 8,873	\$ 4,069	\$ 2,122
Beginning of period	4,069	2,122	39,567
Increase (decrease)	\$ 4,804	\$ 1,947	\$(37,445)

The accompanying notes are an integral part of these financial statements.

AmeriGas Partners, L.P. 1998 Annual Report

**CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL**  
(THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)

	NUMBER OF UNITS		COMMON	SUBORDINATED	GENERAL PARTNER	TOTAL PARTNERS' CAPITAL
	COMMON	SUBORDINATED				
Balance September 30, 1995	21,932,146	19,782,146	\$ 291,988	\$ 263,362	\$5,609	\$560,959
Net income			5,332	4,804	102	10,238
Distributions (note 3)			(48,279)	(43,521)	(927)	(92,727)
Issuance of Common Units in connection with acquisition (note 10)	17,126		413		4	417
Adjustments to net assets contributed (note 8)			(19,078)	(17,206)	(367)	(36,651)
Balance September 30, 1996	21,949,272	19,782,146	230,376	207,439	4,421	442,236
Net income			22,857	20,683	440	43,980
Distributions (note 3)			(48,411)	(43,521)	(929)	(92,861)
Issuance of Common Units in connection with acquisition	111,135		2,645		27	2,672
Capital contribution from General Partner			786	709	15	1,510
Balance September 30, 1997	22,060,407	19,782,146	208,253	185,310	3,974	397,537
Net income			11,182	10,006	214	21,402
Distributions (note 3)			(48,608)	(43,521)	(931)	(93,060)
Adjustments to net assets contributed (note 8)			(14,172)	(12,783)	(272)	(27,227)
Issuance of Common Units in connection with acquisition (note 10)	45,586		1,211		12	1,223
Balance September 30, 1998	22,105,993	19,782,146	\$ 157,866	\$ 139,012	\$2,997	\$299,875

The accompanying notes are an integral part of these financial statements.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(THOUSANDS OF DOLLARS, EXCEPT PER UNIT)

1. PARTNERSHIP ORGANIZATION AND FORMATION
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
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11. OTHER CURRENT LIABILITIES
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14. QUARTERLY DATA (UNAUDITED)

**1. PARTNERSHIP ORGANIZATION AND FORMATION**

AmeriGas Partners, L.P. (AmeriGas Partners) was formed on November 2, 1994 and is a publicly traded limited partnership. AmeriGas Partners owns a 98.99% limited partner interest in AmeriGas Propane, L.P. (the "Operating Partnership"). The Operating Partnership was formed to acquire the propane businesses and assets of AmeriGas Propane, Inc., a Delaware corporation, AmeriGas Propane-2, Inc., and Petrolane Incorporated (Petrolane). The Operating Partnership acquired such assets on April 19, 1995 (the "Closing Date").

AmeriGas Partners and AmeriGas Propane, L.P. are Delaware limited partnerships. The Operating Partnership is engaged in the distribution of propane and related equipment and supplies. The Operating Partnership is the largest retail propane distributor in the United States serving residential, commercial, industrial, motor fuel and agricultural customers from locations in 46 states, including Alaska and Hawaii.

AmeriGas Propane, Inc. (the "General Partner"), a Pennsylvania corporation, holds a 1% general partner interest in AmeriGas Partners and a 1.01% general partner interest in the Operating Partnership. At September 30, 1998, the General Partner and its wholly owned subsidiary Petrolane owned a combined 4,392,858 Common Units and 19,782,146 Subordinated Units of AmeriGas Partners. These Common and Subordinated units represent limited partner interests in AmeriGas Partners.

AmeriGas Partners and the Operating Partnership have no employees. The General Partner conducts, directs and manages all activities of AmeriGas Partners and the Operating Partnership and is reimbursed on a monthly basis for all direct and indirect expenses it incurs on their behalf.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**CONSOLIDATION PRINCIPLES.** Our consolidated financial statements include the accounts of AmeriGas Partners, the Operating Partnership and their subsidiaries, together referred to in this report as "the Partnership" or "we." We eliminate all significant intercompany accounts and transactions when we consolidate. We account for the General Partner's 1.01% interest in the Operating Partnership as a minority interest in the consolidated financial statements.

**USE OF ESTIMATES.** Management makes estimates and assumptions when preparing financial statements in conformity with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

**REVENUE RECOGNITION.** We recognize revenues from the sale of propane principally as product is shipped or delivered to customers.

**INVENTORIES AND PREPAID PROPANE PURCHASES.** Our inventories are stated at the lower of cost or market. We determine cost using an average cost method for propane, specific identification for appliances, and the first-in, first-out (FIFO) method for all other inventories. We also enter into contracts with certain of our suppliers under which we prepay all or a portion of the purchase price of a fixed volume of propane for future delivery. We report these prepayments in the Consolidated Balance Sheets as "prepaid propane purchases."

**PROPERTY, PLANT AND EQUIPMENT AND RELATED DEPRECIATION.** We record property, plant and equipment at cost. The amounts we assign to property, plant and equipment of acquired businesses are based upon estimated fair value at date of acquisition. When we retire or dispose of plant and equipment, we remove from the accounts the cost and accumulated depreciation and include in income any gains or losses.

We compute depreciation of property, plant and equipment using the straight-line method over estimated service lives which range from two to 40 years. Depreciation expense was \$38,133 in 1998, \$37,366 in 1997, and \$36,910 in 1996.

**INTANGIBLE ASSETS.** Intangible assets comprise the following at September 30:

	1998	1997
Goodwill (less accumulated amortization of \$94,605 and \$79,265, respectively)..	\$507,559	\$537,396
Excess reorganization value (less accumulated amortization of \$44,360 and \$35,939, respectively).....	117,147	135,128
Other (less accumulated amortization of \$2,417 and \$1,353, respectively).....	4,649	4,592
Total intangible assets.....	\$629,355	\$677,116

We amortize goodwill recognized as a result of business combinations accounted for as purchases on a straight-line basis over 40 years. We amortize excess reorganization value (resulting from Petrolane's July 15, 1993 reorganization under Chapter 11 of the U.S. Bankruptcy Code) on a straight-line basis over 20 years. We amortize other intangible assets over the estimated periods of benefit which do not exceed ten years. Amortization expense of intangible assets was \$24,922 in 1998, \$24,469 in 1997, and \$24,551 in 1996.

We evaluate the impairment of long-lived assets, including intangibles, whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We evaluate recoverability based upon undiscounted future cash flows expected to be generated by such assets.

**OTHER ASSETS.** Included in other assets are net deferred debt issuance costs of \$10,876 at September 30, 1998 and \$12,456 at September 30, 1997. We are amortizing these costs over the term of the related debt.

**ACCOUNTING FOR COMPUTER SOFTWARE COSTS.** We include in property, plant and equipment external and incremental internal costs associated with computer software we develop for use in our business. We begin capitalizing these costs when the preliminary stage of the project is completed. We amortize these costs on a straight-line basis over a period of five to seven years once the installed software is ready for its intended use.

**ENVIRONMENTAL LIABILITIES.** We have identified environmental contamination at several of our properties. Our policy is to accrue environmental investigation and cleanup costs when it is probable that a liability exists and the amount or range of amounts can be reasonably estimated. We do not discount to present value the costs of future expenditures for environmental liabilities. We intend to pursue recovery of any incurred costs through all appropriate means.

**INCOME TAXES.** AmeriGas Partners and the Operating Partnership are not directly subject to federal and state income taxes. Instead, their taxable income or loss is allocated to the individual partners. The Operating Partnership does, however, have corporate subsidiaries which are subject to federal and state income taxes. Accordingly, our consolidated financial statements reflect income taxes related to these corporate subsidiaries. Net income for financial statement purposes may differ significantly from taxable income reportable to unitholders. This is a result of (1) differences between the tax basis and financial reporting basis of assets and liabilities and (2) the taxable income allocation requirements of the Amended and Restated Agreement of Limited Partnership (Partnership Agreement) and the Internal Revenue Code.

**UNIT-BASED COMPENSATION.** As permitted by Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), we apply the provisions of Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees" in recording compensation expense for grants of stock, stock options, and other equity instruments to employees. If different, we disclose certain pro forma net income and earnings per share data as if the fair value provisions of SFAS 123 had been applied.

**NET INCOME PER UNIT.** Net income per unit is computed by dividing net income, after deducting the General Partner's 1% interest, by the weighted average number of Common and Subordinated units outstanding. In 1998, we adopted SFAS No. 128, "Earnings Per Share" (SFAS 128). SFAS 128 establishes standards for computing and presenting earnings per share and supersedes the previous standards. SFAS 128 requires restatement of all prior-period earnings per share data presented. The adoption of SFAS 128 did not impact the calculation of 1998, 1997 or 1996 net income per unit.

**ACCOUNTING FOR DERIVATIVE INSTRUMENTS.** We use derivative instruments, including futures contracts, price swap agreements and option contracts, to hedge exposure to market risk associated with a portion of our anticipated propane purchases. Additionally, on occasion we enter into interest rate protection agreements to reduce interest rate risk associated with anticipated issuances of debt.

We recognize gains or losses on derivative instruments associated with these forecasted transactions when such transactions affect earnings. If it is probable that the original forecasted transaction will not occur, we immediately recognize in earnings any gain or loss on the related derivative instrument. If such derivative instrument is terminated early for other economic reasons, we defer any gain or loss as of the termination date until such time as the forecasted transaction affects earnings.

**CONSOLIDATED STATEMENTS OF CASH FLOWS.** We define cash equivalents as all highly liquid investments with maturities of three months or less when purchased. We record cash equivalents at cost plus accrued interest, which approximates market value. We paid interest totaling \$67,069 in 1998, \$67,103 in 1997, and \$62,846 in 1996.

**ACCOUNTING PRINCIPLES NOT YET ADOPTED.** In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130, "Reporting Comprehensive Income" (SFAS 130), and SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information" (SFAS 131). SFAS 130 establishes standards for reporting and displaying comprehensive income and its components in financial statements. Comprehensive income includes net income and all other nonowner changes in equity. SFAS 131 establishes standards for reporting information about operating segments as well as related disclosures about products and services, geographic areas, and major customers. We will adopt SFAS 130 and SFAS 131 in fiscal 1999. In addition, in March 1998 the American Institute of Certified Public Accountants issued Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1). SOP 98-1 requires companies to capitalize the cost of computer software developed or obtained for internal use once certain criteria have been met. We will adopt SOP 98-1 in fiscal 2000.

We do not expect the adoptions of SFAS 130 and SOP 98-1 will have a material effect on our financial position or results of operations. In

addition, we do not expect the initial application of SFAS 131 will affect the operating segments we disclose.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS

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133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivative instruments as either assets or liabilities and measure them at fair value. The accounting for changes in fair value depends upon the purpose of the derivative instrument and whether it is designated and qualifies for hedge accounting. To the extent derivative instruments qualify and are designated as hedges of forecasted transactions, changes in fair value will generally be reported as a component of other comprehensive income and be reclassified into net income when the forecasted transaction affects earnings. To the extent such derivative instrument qualifies as a hedge of a firm commitment, any gain or loss would generally be recognized in earnings when the firm commitment affects earnings. We will adopt SFAS 133 in fiscal 2000. We are currently evaluating the potential impact of SFAS 133 on our future financial condition and results of operations. The impact of SFAS 133 will likely depend upon the extent to which we use derivative instruments and their designation and effectiveness as hedges of market risk.

### 3. QUARTERLY DISTRIBUTIONS OF AVAILABLE CASH

The Partnership makes distributions to its partners approximately 45 days after the end of each fiscal quarter in a total amount equal to its Available Cash for such quarter. Available Cash generally means:

1. all cash on hand at the end of such quarter,
2. plus all additional cash on hand as of the date of determination resulting from borrowings after the end of such quarter,
3. less the amount of cash reserves established by the General Partner in its reasonable discretion.

The General Partner may establish reserves for the proper conduct of the Partnership's business and for distributions during the next four quarters. In addition, certain of the Partnership's debt agreements require reserves be established for the payment of debt principal and interest.

Distributions of Available Cash will generally be made 98% to the Common and Subordinated unitholders and 2% to the General Partner. The Partnership may pay an incentive distribution if Available Cash exceeds the Minimum Quarterly Distribution (MQD) of \$.55 on all units. If there is sufficient Available Cash, the holders of Common Units have the right to receive the MQD, plus any arrearages, before the distribution of Available Cash to holders of Subordinated Units. Common Units will not accrue arrearages for any quarter after the Subordination Period (as defined below), and Subordinated Units will not accrue arrearages for any quarter.

The Subordination Period will generally extend until the first day of any quarter beginning on or after April 1, 2000 where:

1. distributions of Available Cash from Operating Surplus (generally defined as \$40,000 plus \$42,879 of cash on hand as of the Closing Date plus all operating cash receipts less all operating cash expenditures and cash reserves) equal or exceed the MQD on each of the outstanding Common and Subordinated units for each of the four consecutive non-overlapping four-quarter periods immediately preceding such date;
2. the Adjusted Operating Surplus (generally defined as Operating Surplus adjusted to exclude working capital borrowings, decreases in cash reserves, and \$40,000 plus \$42,879 of cash on hand as of the Closing Date, and to include increases in reserves to provide for distributions resulting from Operating Surplus generated during such period) generated during both (i) each of the two immediately preceding non-overlapping four-quarter periods and (ii) the immediately preceding sixteen-quarter period, equals or exceeds the MQD on each of the Common and Subordinated units outstanding during those periods; and
3. there are no arrearages on the Common Units.

Prior to the end of the Subordination Period, 4,945,537 Subordinated Units may convert into Common Units on the first day after the record date for distributions based upon any quarter ending on or after March 31, 1998, and an additional 4,945,537 Subordinated Units may convert into Common Units on the first day after the record date for distributions based upon any quarter ending on or after March 31, 1999, if:

1. distributions of Available Cash from Operating Surplus on each of the outstanding Common and Subordinated units equal or exceed the MQD for each of the three consecutive four-quarter periods immediately preceding such date;
2. the Adjusted Operating Surplus generated during the immediately preceding twelve-quarter period equals or exceeds the MQD on all of the Common and Subordinated units outstanding during that period;
3. the Audit Committee of the Board of Directors of the General Partner approves management's good faith determination that the Partnership will, with respect to the four-quarter period commencing with such date, generate Adjusted Operating Surplus in an amount equal to or exceeding the MQD on all of the outstanding Common and Subordinated units; and
4. there are no arrearages on the Common Units.

The cash performance requirements for conversion have not been met to date. They are dependent upon many factors including highly seasonal operating results, changes in working capital, asset sales and debt refinancings. Management believes, however, that it is reasonably possible that the 9,891,074 Subordinated Units eligible for early conversion will convert into Common Units during fiscal 1999.

4. DEBT Long-term debt comprises the following at September 30:

	1998	1997
AmeriGas Partners Senior Notes, 10.125%, due April 2007	\$ 100,000	\$ 100,000
First Mortgage Notes:		
Series A, 9.34%-11.71%, due April 2000 through April 2009 (including unamortized premium of \$13,511 and \$14,785, respectively, calculated at an 8.91% effective rate)	221,511	222,785
Series B, 10.07%, due April 2001 through April 2005 (including unamortized premium of \$9,838 and \$11,557, respectively, calculated at an 8.74% effective rate)	209,838	211,557
Series C, 8.83%, due April 2003 through April 2010	110,000	110,000
Acquisition Facility	60,000	37,000
Other (including capital lease obligations of \$980 and \$2,145, respectively)	7,645	9,386
Total long-term debt	708,994	690,728
Less current maturities	(6,068)	(6,420)
Total long-term debt due after one year	\$ 702,926	\$ 684,308

Scheduled repayments of long-term debt for each of the next five fiscal years ending September 30 are as follows: 1999 - \$6,068; 2000 - \$18,305; 2001 - \$77,258; 2002 - \$78,455; 2003 - \$74,395.

**AMERIGAS PARTNERS SENIOR NOTES.** The 10.125% Senior Notes of AmeriGas Partners are not redeemable prior to April 15, 2000. Thereafter, AmeriGas Partners has the option to redeem the Senior Notes, in whole or in part. A redemption premium applies until April 15, 2004. In addition, AmeriGas Partners may, under certain circumstances following the disposition of assets or a change of control, be required to offer to prepay the Senior Notes.

**FIRST MORTGAGE NOTES.** The Operating Partnership's First Mortgage Notes are collateralized by substantially all of its assets. The General Partner and Petrolane are co-obligors of the First Mortgage Notes. The Operating Partnership may prepay the First Mortgage Notes, in whole or in part. These prepayments include a make whole premium. Following the disposition of assets or a change of control, the Operating Partnership may be required to offer to prepay the First Mortgage Notes, in whole or in part.

**BANK CREDIT AGREEMENT.** The Operating Partnership's bank credit agreement (Bank Credit Agreement) consists of a Revolving Credit Facility and an Acquisition Facility. The Operating Partnership's obligations under the Bank Credit Agreement are collateralized by substantially all of its assets. The General Partner and Petrolane are co-obligors of the bank credit facilities.

Under the Revolving Credit Facility, the Operating Partnership may borrow up to \$100,000 (including a \$35,000 sublimit for letters of credit). The Revolving Credit Facility expires September 15, 2002, but may be extended for additional one-year periods with the consent of the participating banks representing at least 80% of the commitments thereunder. The Revolving Credit Facility permits the Operating Partnership to borrow at various prevailing interest rates, including the Base Rate, defined as the higher of the Federal Funds Rate plus .50% or the agent bank's reference rate (8.50% at September 30, 1998), or at two-week, one-, two-, three-, or six-month offshore interbank offering rates (IBOR), plus a margin. The margin on IBOR borrowings (which ranges from .20% to 1.00%) and the Revolving Credit Facility commitment fee rate are dependent upon the Operating Partnership's ratio of funded debt to earnings before interest, income taxes, depreciation and amortization (EBITDA), each as defined in the Bank Credit Agreement.

The Operating Partnership had borrowings under the Revolving Credit Facility totaling \$10,000 at September 30, 1998 and \$28,000 at September 30, 1997, which we classify as bank loans. The weighted-average interest rates on the bank loans outstanding were 6.22% as of September 30, 1998 and 6.44% as of September 30, 1997. Issued outstanding letters of credit under the Revolving Credit Facility at September 30, 1998 totaled \$500.

The Acquisition Facility provides the Operating Partnership with the ability to borrow up to \$75,000 to finance the purchase of propane businesses or propane business assets. The Acquisition Facility operates as a revolving facility through September 15, 2000, at which time it converts to a quarterly amortizing four-year term loan. The Acquisition Facility permits the Operating Partnership to borrow at the Base Rate or at two-week, one-, two-, three-, or six-month IBOR, plus a margin. The margin on IBOR borrowings and the Acquisition Facility commitment fee rate are dependent upon the Operating Partnership's ratio of funded debt to EBITDA, as defined. The weighted-average interest rates on Acquisition Facility loans outstanding were 6.18% as of September 30, 1998 and 6.32% as of September 30, 1997.

**RESTRICTIVE COVENANTS.** The 10.125% Senior Notes of AmeriGas Partners restrict the ability of the Partnership to, among other things, incur additional indebtedness, incur liens, issue preferred interests, and effect mergers, consolidations and sales of assets. Under the Senior Notes Indenture, AmeriGas Partners is generally permitted to make cash distributions equal to available cash, as defined, as of the end of the immediately preceding quarter, if certain conditions are met. These conditions include:

1. no event of default exists or would exist upon making such distributions and
2. the Partnership's consolidated fixed charge coverage ratio, as defined, is greater than 1.75-to-1.

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If the ratio in item 2 above is less than or equal to 1.75-to-1, the Partnership may make cash distributions in a total amount not to exceed \$24,000 less the total amount of distributions made during the immediately preceding 16 fiscal quarters. At September 30, 1998, such ratio was 2.27-to-1.

The Bank Credit Agreement and the First Mortgage Notes restrict the incurrence of additional indebtedness and also restrict certain liens, guarantees, loans and advances, payments, mergers, consolidations, sales of assets and other transactions. They also require the ratio of total indebtedness, as defined, to EBITDA, as defined (calculated on a rolling four-quarter basis or eight-quarter basis divided by two), to be less than or equal to 5.25-to-1. In addition, the Bank Credit Agreement requires that the Operating Partnership maintain a ratio of EBITDA to interest expense, as defined, of at least 2.25-to-1 on a rolling four-quarter basis. Generally, as long as no default exists or would result, the Operating Partnership is permitted to make cash distributions not more frequently than quarterly in an amount not to exceed available cash, as defined, for the immediately preceding calendar quarter.

**GENERAL PARTNER FACILITY.** The Operating Partnership also has a revolving credit agreement with the General Partner under which it may borrow up to \$20,000 to fund working capital, capital expenditures, and interest and distribution payments. This agreement is coterminous with, and generally comparable to, the Operating Partnership's Revolving Credit Facility except that borrowings under the General Partner Facility are unsecured and subordinated to all senior debt of the Partnership. Interest rates on borrowings are based upon one-month IBOR. Commitment fees are determined in the same manner as fees under the Revolving Credit Facility. UGI Corporation has agreed to contribute on an as needed basis through its subsidiaries up to \$20,000 to the General Partner to fund such borrowings.

#### 5. EMPLOYEE RETIREMENT PLANS

The General Partner sponsors a 401(k) savings plan for eligible employees. Participants in the savings plan may contribute a portion of their compensation on a before-tax basis. In 1998 and 1997, we matched employee contributions on a dollar-for-dollar basis up to 5% of eligible compensation. In 1996, employee contributions were not matched. In 1996, the General Partner also sponsored a noncontributory defined contribution pension plan for eligible employees. Our contributions to the pension plan represented a percentage of each covered employee's salary. Effective October 1, 1996, we ceased contributing to the pension plan and the assets were merged into the savings plan. The cost of benefits under our pension and savings plans was \$4,101 in 1998, \$4,762 in 1997, and \$4,943 in 1996.

We provide postretirement health care benefits to a closed group of retired employees, and we also provide limited life insurance benefits to nearly all active employees and certain retired employees. The cost of postretirement medical and life insurance benefits for 1998, 1997 and 1996, and the related accumulated benefit obligations as of the end of such periods, were not material.

#### 6. INVENTORIES

Inventories comprise the following at September 30:

	1998	1997
Propane gas .....	\$34,777	\$47,641
Materials, supplies and other .....	11,386	12,519
Appliances for sale .....	3,231	4,773
<b>Total inventories .....</b>	<b>\$49,394</b>	<b>\$64,933</b>

In addition to inventories on hand, we also enter into contracts to purchase propane to meet a portion of our supply requirements. Generally, such contracts have terms of less than one year and call for payment based on either fixed prices or market prices at date of delivery.

#### 7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprise the following at September 30:

	1998	1997
Land .....	\$ 52,924	\$ 52,849
Buildings and improvements .....	52,481	50,566
Transportation equipment .....	59,196	53,284
Storage facilities .....	63,852	58,200
Equipment, primarily cylinders and tanks .....	408,471	387,554
Capital leases .....	5,204	5,211

Other .....	4,997	4,398
-----		
Gross property, plant and equipment .....	647,125	612,062
Less accumulated depreciation and amortization .....	(205,083)	(167,385)
-----		
Net property, plant and equipment .....	\$ 442,042	\$ 444,677
=====		

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## 8. PARTNERS' CAPITAL AND INCENTIVE COMPENSATION PLAN

During the Subordination Period, we may issue up to 9,400,000 additional Common Units (excluding Common Units issued in connection with (1) employee benefit plans and (2) the conversion of Subordinated Units into Common Units) or an equivalent number of securities ranking on a parity with the Common Units without the approval of a majority of the Common Unitholders. We may issue an unlimited number of additional Common Units or parity securities without Common Unitholder approval if:

1. such issuance occurs in connection with acquisitions, including, in certain circumstances, the repayment of debt incurred in connection with an acquisition or
2. such issuance is for the repayment of up to \$150,000 of long-term indebtedness of the Partnership.

After the Subordination Period, the General Partner may, in its sole discretion, cause the Partnership to issue an unlimited number of additional limited partner interests and other equity securities of the Partnership.

In June 1998, the General Partner revised its estimate of the tax basis of certain assets contributed to the Partnership in conjunction with the Partnership's formation. The change in estimate resulted in the following adjustments to the Consolidated Balance Sheet: (1) a \$27,227 decrease in partners' capital; (2) a \$279 decrease in minority interest; (3) a \$17,945 decrease in goodwill; and (4) a \$9,561 decrease in excess reorganization value.

In February 1996, the General Partner completed AmeriGas Partners' and the Operating Partnership's federal income tax returns for the Partnership's initial period of operation. As a part of this process, a final determination was made as to how to allocate the tax basis of certain of the assets contributed to the Partnership by its predecessor companies. The completion of the allocation process resulted in reductions to the deferred income tax liabilities of the General Partner and Petrolane at the Closing Date, which had been recorded in connection with the formation of the Partnership. It also resulted in a reduction to the net assets contributed by the General Partner and Petrolane to the Operating Partnership in conjunction with the formation of the Partnership. This adjustment was recorded during 1996 as (1) a \$36,651 reduction in partners' capital; (2) a \$374 reduction in minority interest; and (3) a \$37,025 reduction in goodwill.

On October 28, 1996, the General Partner adopted the AmeriGas Propane, Inc. 1997 Long-Term Incentive Plan (1997 Propane Plan), effective October 1, 1996. Under the 1997 Propane Plan, the General Partner may grant to key employees the right to receive a total of 500,000 AmeriGas Partners Common Units, or cash generally equivalent to the fair market value of such Common Units, on the payment date. In addition, the 1997 Propane Plan provides for the crediting of Partnership distribution equivalents to participants' accounts. Distribution equivalents will be paid in cash, and such payment may, at the participant's request, be deferred. Generally, each grant, unless paid, will terminate when the participant ceases to be employed by the General Partner.

The actual number of Common Units (or their cash equivalent) that may be delivered under the 1997 Propane Plan, as well as the amount of the distribution equivalent, are contingent upon the date on which the requirements for early conversion of Subordinated Units are met. If the requirements for early conversion are not met by September 30, 2001, the General Partner will not make any payments under the 1997 Propane Plan. The number of Common Units made the subject of grants under the 1997 Propane Plan was 88,200 at September 30, 1998 and 84,500 at September 30, 1997. At September 30, 1998, 411,800 Common Units were available for future grants.

We recorded compensation expense for the 1997 Propane Plan of \$164 in 1998 and \$1,560 in 1997. Such compensation expense, if determined under the provisions of SFAS 123, would have been the same.

## 9. COMMITMENTS AND CONTINGENCIES

We lease various buildings and transportation, data processing and office equipment under operating leases. Certain of the leases contain renewal and purchase options and also contain escalation clauses. Our aggregate rental expense for such leases was \$29,026 in 1998, \$23,481 in 1997, and \$23,090 in 1996.

Minimum future payments under noncancelable capital and operating leases are as follows:

	CAPITAL LEASES	OPERATING LEASES
Year ending September 30,		
1999 .....	\$ 1,028	\$ 26,456
2000 .....	7	21,225
2001 .....	--	18,060
2002 .....	--	13,868
2003 .....	--	10,578
Thereafter .....	--	23,788
Total minimum lease obligations .....	1,035	\$113,975

Less imputed interest .....	(55)
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Present value of capital lease obligations .....	\$ 980
=====	

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(THOUSANDS OF DOLLARS, EXCEPT PER UNIT)

The Partnership has succeeded to certain lease guarantee obligations of Petrolane relating to Petrolane's divestiture of nonpropane operations before its 1989 acquisition by QFB Partners. Lease payments under these leases total approximately \$54,000. The leases expire through 2010, and some of them are currently in default. The Partnership has succeeded to the indemnity agreement of Petrolane by which Texas Eastern Corporation (Texas Eastern), a prior owner of Petrolane, agreed to indemnify Petrolane against any liabilities arising out of the conduct of businesses that do not relate to, and are not a part of, the propane business, including lease guarantees. To date, Texas Eastern has directly satisfied defaulted lease obligations without the Partnership's having to honor its guarantee. We believe the probability that we will be required to directly satisfy such lease obligations is remote.

In addition, the Partnership has succeeded to Petrolane's agreement to indemnify Shell Petroleum N.V. (Shell) for various scheduled claims that were pending against Tropigas de Puerto Rico (Tropigas). Petrolane had entered into this indemnification agreement in conjunction with its sale of the international operations of Tropigas to Shell in 1989. The Partnership also succeeded to Petrolane's right to seek indemnity on these claims first from International Controls Corp., which sold Tropigas to Petrolane, and then from Texas Eastern. To date, neither the Partnership nor Petrolane has paid any sums under this indemnity, but several claims by Shell, including claims related to certain antitrust actions aggregating at least \$68,000, remain pending.

In addition to these matters, there are other pending claims and legal actions arising in the normal course of our business. We cannot predict with certainty the final results of these matters. However, it is reasonably possible that some of them could be resolved unfavorably to us. Management believes, after consultation with counsel, that damages or settlements, if any, recovered by the plaintiffs in such claims or actions will not have a material adverse effect on our financial position but could be material to our operating results or cash flows in future periods depending on the nature and timing of future developments with respect to these matters and the amounts of future operating results and cash flows.

#### 10. RELATED PARTY TRANSACTIONS

Under the Partnership Agreement, the General Partner is entitled to reimbursement for all direct and indirect expenses incurred or payments it makes on behalf of the Partnership. These costs, which totaled \$184,917 in 1998, \$177,210 in 1997, and \$176,425 in 1996, include employee compensation and benefit expenses of employees of the General Partner and general and administrative expenses. UGI provides certain financial and administrative services to the General Partner. UGI bills the General Partner for these direct and indirect corporate expenses, and the General Partner is reimbursed by the Partnership for these expenses. Such corporate expenses totaled \$5,935 in 1998, \$6,557 in 1997, and \$7,786 in 1996. In addition, UGI and certain of its subsidiaries provide office space and general liability, automobile and workers' compensation insurance to the Partnership. These expenses totaled \$2,501 in 1998, \$3,009 in 1997, and \$3,189 in 1996.

During 1998, the Partnership, in conjunction with a propane business acquisition, issued 45,586 Common Units to the General Partner having a fair value of \$1,211. During 1996, a wholly owned subsidiary of the General Partner, Diamond Acquisition, Inc. (Diamond), contributed to the Partnership the net assets of a Hawaiian corporation. In consideration of the retention of certain associated income tax liabilities, AmeriGas Partners issued 17,126 Common Units to Diamond having a fair value of \$413.

#### 11. OTHER CURRENT LIABILITIES

Other current liabilities comprise the following at September 30:

	1998	1997
Self-insured property and casualty liability	\$11,265	\$10,969
Insured property and casualty liability . . .	3,800	1,801
Taxes other than income taxes . . . . .	5,471	9,981
Other . . . . .	8,866	3,320
<b>Total other current liabilities . . . . .</b>	<b>\$29,402</b>	<b>\$26,071</b>

#### 12. FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments included in current assets and current liabilities (excluding current maturities of long-term debt) approximate their fair values because of their short-term nature. We estimate the fair values of our long-term debt to be \$772,000 at September 30, 1998 and \$737,000 at September 30, 1997. We make these estimates by using current market prices and by discounting future cash flows using rates available for similar type debt.

We have financial instruments such as trade accounts receivable which could expose us to concentrations of credit risk. The credit risk from trade accounts receivable is limited because we have a large customer base which extends across many different U.S. markets. At September

30, 1998 and 1997, we had no significant concentrations of credit risk.

In order to reduce interest rate risk associated with the anticipated refinancing of existing long-term debt, during 1998 we entered into an interest rate protection agreement covering \$50,000 of long-term debt to be issued in fiscal 2001. The counterparty to this agreement is a large financial institution. To the extent this agreement continues to qualify as a hedge of the forecasted

AmeriGas Partners, L.P. 1998 Annual Report

transaction, any gains or losses on the agreement will be included in the basis of the long-term debt issued which will adjust the effective interest rate. The estimated fair value of this agreement was \$(2,441) at September 30, 1998.

We are a party to propane price swap and option agreements with private counterparties maturing through March 1999. We use these agreements to manage price risk associated with a portion of our propane supply needs. At September 30, 1998, we were a party to price swap agreements with a total notional amount of \$11,700. In addition, the Partnership held zero-cost collars for propane having a total notional ceiling amount of \$11,800 and a total notional floor amount of \$9,300. The estimated fair value of these agreements was not material.

### 13. OTHER INCOME, NET

Other income, net, comprises the following:

	1998	1997	1996
Interest income .....	\$ (22)	\$ (1,475)	\$ (1,278)
Loss on interest rate protection agreements	4,000)	-	-
Gain on sale of Atlantic Energy, Inc. ....	-	(4,700)	-
Gain on sale of fixed assets .....	(1,411)	(1,001)	(1,855)
Other .....	(3,312)	(4,140)	(5,262)
<b>Total other income, net .....</b>	<b>\$ (745)</b>	<b>\$ (11,316)</b>	<b>\$ (8,395)</b>

### 14. QUARTERLY DATA (UNAUDITED)

The following quarterly data includes all adjustments (consisting only of normal recurring adjustments with the exception of those indicated below) which we consider necessary for a fair presentation. Our quarterly results fluctuate because of the seasonal nature of our propane business.

	DECEMBER 31,		MARCH 31,		JUNE 30,		SEPTEMBER 30,	
	1997	1996	1998	1997(a)	1998	1997	1998(b)	1997
Revenues .....	\$302,923	\$360,116	\$306,182	\$371,149	\$ 158,206	\$ 177,666	\$ 147,067	\$ 168,894
Operating								
income (loss) .....	44,037	57,699	59,385	65,794	(652)	593	(14,852)	(13,713)
Net income (loss) .....	26,451	39,951	42,276	48,508	(16,545)	(15,152)	(30,780)	(29,327)
Net income (loss) per								
limited partner unit	.63	.95	1.00	1.15	(.39)	(.36)	(.73)	(.69)

(a) Includes gain from the sale of the Partnership's 50% equity interest in Atlantic Energy, Inc., which owns and operates a liquefied petroleum gas storage terminal in Chesapeake, Virginia. The gain increased operating income by \$4,700 and net income by \$4,652 or \$.11 per limited partner unit.

(b) Includes loss from interest rate protection agreements which increased operating loss by \$4,000 and net loss by \$3,960 or \$.09 per limited partner unit. We entered into these agreements in 1998 to reduce interest rate exposure associated with an anticipated debt refinancing. Due to unusual conditions in the corporate debt markets, we postponed the refinancing and recorded a loss on these agreements because they no longer qualified for hedge accounting treatment.

## GENERAL PARTNER'S REPORT

The Partnership's consolidated financial statements and other financial information contained in this Annual Report are prepared by management of the General Partner, AmeriGas Propane, Inc., which is responsible for their fairness, integrity and objectivity. The consolidated financial statements and related information were prepared in accordance with generally accepted accounting principles and include amounts that are based on management's best judgments and estimates.

The General Partner has established a system of internal controls. Management of the General Partner believes the system provides reasonable assurance that assets are safeguarded and that transactions are executed in accordance with management's authorization and are properly recorded to permit the preparation of reliable financial information. There are limits in all systems of internal control, based on the recognition that the cost of the system should not exceed the benefits to be derived. We believe that the internal control system is cost effective and provides reasonable assurance that material errors or irregularities will be prevented or detected within a timely period. The internal control system and compliance therewith are monitored by UGI Corporation's internal audit staff.

The Audit Committee of the Board of Directors of the General Partner is composed of two members, neither of whom is an employee of the Company. This Committee is responsible, among other things, for reviewing the adequacy of corporate financial reporting and accounting systems and controls, for overseeing the external and internal auditing functions and for recommending to the Board of Directors the independent public accountants to conduct the annual audit of the Partnership's consolidated financial statements. The Committee maintains direct channels of communication between the Board of Directors and both the independent public accountants and internal auditors.

The independent public accountants, who are appointed by the Board of Directors of the General Partner, perform certain procedures, including an evaluation of internal controls to the extent required by generally accepted auditing standards, in order to express an opinion on the consolidated financial statements and to obtain reasonable assurance that such financial statements are free of material misstatement.

*/s/ Lon R. Greenberg*

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*Lon R. Greenberg*

*Chairman and*

*Chief Executive Officer*

*/s/ Martha B. Lindsay*

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*Martha B. Lindsay*

*Chief Financial Officer*

*/s/ Richard R. Eynon*

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*Richard R. Eynon*

*Chief Accounting Officer*



## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Partners of AmeriGas Partners, L.P. and the Board of Directors of AmeriGas Propane, Inc.:

We have audited the accompanying consolidated balance sheets of AmeriGas Partners, L.P. and subsidiaries as of September 30, 1998 and 1997 and the related consolidated statements of operations, partners' capital and cash flows for each of the three years in the period ended September 30, 1998. These financial statements are the responsibility of the management of AmeriGas Propane, Inc. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AmeriGas Partners, L.P. and subsidiaries as of September 30, 1998 and 1997 and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1998, in conformity with generally accepted accounting principles.

*/s/ Arthur Andersen LLP*

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*Chicago, Illinois*

*November 13, 1998*

**AmeriGas Partners, L.P., 1998 Annual Report**

**EXHIBIT 21**

**AMERIGAS PARTNERS, L.P. SUBSIDIARIES**

SUBSIDIARY	STATE OF ORGANIZATION/ INCORPORATION	OWNERSHIP
AMERIGAS PARTNERS, L.P.	DE	
AmeriGas Finance Corp.	DE	100%
AmeriGas Propane, L.P.	DE	*
AmeriGas Propane Parts & Service, Inc.	PA	100%
Petrolane Offshore Limited	Bermuda	100%

\* AmeriGas Partners, L.P. owns 98.9899% of AmeriGas Propane, L.P.

**ARTICLE 5**

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AND STATEMENT OF OPERATIONS OF AMERIGAS PARTNERS, L.P. AND SUBSIDIARIES AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS INCLUDED IN AMERIGAS PARTNERS' ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED SEPTEMBER 30, 1998.

CIK: 0000932628

NAME: AMERIGAS PARTNERS, L.P.

MULTIPLIER: 1,000

PERIOD TYPE	12 MOS
FISCAL YEAR END	SEP 30 1998
PERIOD START	OCT 01 1997
PERIOD END	SEP 30 1998
CASH	8,873
SECURITIES	0
RECEIVABLES	65,210
ALLOWANCES	6,432
INVENTORY	49,394
CURRENT ASSETS	133,346
PP&E	647,125
DEPRECIATION	205,083
TOTAL ASSETS	1,217,216
CURRENT LIABILITIES	160,297
BONDS	702,926
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	0
OTHER SE	299,875
TOTAL LIABILITY AND EQUITY	1,217,216
SALES	914,378
TOTAL REVENUES	914,378
CGS	443,760
TOTAL COSTS	443,760
OTHER EXPENSES	0
LOSS PROVISION	4,287
INTEREST EXPENSE	66,189
INCOME PRETAX	21,729
INCOME TAX	3
INCOME CONTINUING	21,402
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	21,402
EPS PRIMARY	.51
EPS DILUTED	.51

**ARTICLE 5**

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE BALANCE SHEET OF AMERIGAS FINANCE CORP. AS OF SEPTEMBER 30, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENT INCLUDED IN AMERIGAS PARTNERS' ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED SEPTEMBER 30, 1998.

CIK: 0000945792

NAME: AMERIGAS FINANCE CORP.

MULTIPLIER: 1

PERIOD TYPE	12 MOS
FISCAL YEAR END	SEP 30 1998
PERIOD START	OCT 01 1997
PERIOD END	SEP 30 1998
CASH	1,000
SECURITIES	0
RECEIVABLES	0
ALLOWANCES	0
INVENTORY	0
CURRENT ASSETS	1,000
PP&E	0
DEPRECIATION	0
TOTAL ASSETS	1,000
CURRENT LIABILITIES	0
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	1
OTHER SE	999
TOTAL LIABILITY AND EQUITY	1,000
SALES	0
TOTAL REVENUES	0
CGS	0
TOTAL COSTS	0
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	0
INCOME PRETAX	0
INCOME TAX	0
INCOME CONTINUING	0
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	0
EPS PRIMARY	0
EPS DILUTED	0

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