SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported) November 20, 1998

STAR GAS PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

33-98490	06-1437793
(Commission File Number)	(I.R.S. Employer Identification No.)

2187 Atlantic Street Stamford, Connecticut, 06902

(Address of principal executive office)

(203) 328-7300

(Registrant's telephone number, including area code)

Item 1. Change in Control of Registrant

None.

Item 2. Acquisition or Disposition of Assets

None

Item 3. Bankruptcy or Receivership

None.

Item 4. Change in Registrant's Certifying Accountant

None.

Item 5. Other Events

Star Gas Partners, L.P. a Delaware partnership (the "Reporting Person") is filing pursuant to this form 8-K certain historical financial statements (the "Petro Financial Statements") of Petroleum Heat and Power Co., Inc. a Minnesota corporation ("Petro") (SEC File No.

1-9358) as listed in Item 7, in order to permit the Reporting Person to incorporate the Petro Financial Statements in the Reporting Person's future SEC filings.

Item 6. Registration of Registrant's Directors

None.

Item 7. Financial Statements and Exhibits

The consolidated financial statements of Petroleum Heat and Power Co., Inc. as of December 31, 1996 and 1997 and for each of the years in the three-year period ended December 31, 1997 are filed as Exhibit 99.1 to this Current Report.

The consolidated financial statements of Petroleum Heat and Power Co., Inc. as of September 30, 1998 and December 31, 1997 and for the three and nine month periods ended September 30, 1997 and 1998 (unaudited) are filed as Exhibit 99.2 to this Current Report.

Schedule II--Valuation and Qualifying Accounts--Years ended December 31, 1995, 1996 and 1997.

Item 8. Changes in Fiscal Year

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized:

Star Gas Partners, L.P.
By: Star Gas Corporation (General Partner)

/s/ Joseph P. Cavanaugh

By: Joseph P. Cavanaugh
President and Chief Executive Officer

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

Signature	Title	Date
/s/ Joseph P. Cavanaugh - ----------------------- Joseph P. Cavanaugh	President Star Gas Corporation (Principal Executive Officer)	November 20, 1998
/s/ Richard F. Ambury - --------------------- Richard F. Ambury	Vice President - Finance Star Gas Corporation Principal Financial and Accounting Officer))	November 20, 1998

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION OF EXHIBIT	SEQUENTIAL PAGE NO.
99.1	The consolidated financial statements of Petroleum Heat and Power Co., Inc. as of December 31, 1996 and 1997 and for each of the years in the three year period ended December 31, 1997 and related schedule.	5
99.2	The consolidated financial statements of Petroleum Heat and Power Co., Inc. as of September 30, 1998 and December 31, 1997 and for the three and nine month periods ended September 30, 1997 and 1998 (unaudited).	30

INDEPENDENT AUDITORS' REPORT

The Stockholders and Board of Directors of
Petroleum Heat and Power Co., Inc.:

We have audited the accompanying consolidated balance sheets of Petroleum Heat and Power Co., Inc. and subsidiaries as of December 31, 1996 and 1997, and the related consolidated statements of operations, changes in stockholders' equity (deficiency) and cash flows for each of the years in the three-year period ended December 31, 1997. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule 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 financial position of Petroleum Heat and Power Co., Inc. and subsidiaries as of December 31, 1996 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1997 in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG PEAT MARWICK LLP

Stamford, Connecticut
March 20, 1998

PETROLEUM HEAT AND POWER CO., INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

ASSETS	DECEMBER 31, 1996	DECEMBER 31, 1997
Current assets:		
Cash	$ 3,257	$ 2,390
Restricted cash	3,000	-
Accounts receivable (net of allowance of $1,088 and $980)	93,362	78,987
Inventories	22,084	16,285
Prepaid expenses	7,008	6,203
Notes receivable and other current assets	1,299	1,259
Total current assets	130,010	105,124
Property, plant and equipment - net	30,666	30,615
Intangible assets (net of accumulated amortization of $283,486 and $285,850)		
Customer lists	77,778	69,265
Deferred charges	25,718	24,924
	103,496	94,189
Investment in and advances to the Star Gas Partnership	29,907	27,499
Deferred gain on Star Gas Transaction	(19,964)	(19,964)
	9,943	7,535
Cash collateral account	-	9,350
Other assets	910	1,033
	$ 275,025	$ 247,846

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)	1996	1997
Current liabilities:		
Working capital borrowings	$ 22,000	$ 3,000
Current debt	3,047	2,391
Current maturities of redeemable preferred stock	4,167	4,167
Accounts payable	18,988	14,759
Customer credit balances	17,468	20,767
Unearned service contract revenue	15,388	15,321
Accrued expenses and other liabilities	30,859	32,283
Total current liabilities	111,917	92,688
Supplemental benefits and other long-term liabilities	1,584	5,043
Pension plan obligation	7,587	5,702
Notes payable and other long-term debt	16,787	16,507
Senior notes payable	34,150	63,100
Subordinated notes payable	240,400	209,350
Redeemable and exchangeable preferred stock	8,333	32,489
Common stock redeemable at option of stockholder (124 Class A and 31 Class C shares and 83 Class A and 21 Class C shares)	984	656
Note receivable from stockholder	(984)	(656)
Stockholders' equity (deficiency):		
Class A common stock-par value $.10 per share; 40,000 shares authorized, 22,931 and 23,606 shares issued and outstanding	2,294	2,361
Class B common stock-par value $.10 per share; 6,500 shares authorized, 11 and 11 shares issued and outstanding	1	1
Class C common stock-par value $.10 per share; 5,000 shares authorized, 2,567 and 2,577 shares issued		

and outstanding	257	258
Additional paid-in capital	78,804	81,358
Deficit	(221,024)	(256,365)
Minimum pension liability adjustment	(6,065)	(4,646)
Total stockholders' equity (deficiency)	(145,733)	(177,033)
	$ 275,025	$ 247,846

See accompanying notes to consolidated financial statements.

PETROLEUM HEAT AND POWER CO., INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	YEARS ENDED DECEMBER 31,		
	1995	1996	1997
Net sales	$609,507	$608,161	$548,141
Cost of sales	387,825	427,388	379,748
GROSS PROFIT	221,682	180,773	168,393
Selling, general and administrative expenses	128,295	105,601	102,377
Direct delivery expense	36,634	33,102	30,006
Restructuring charges	-	1,150	2,850
Corporate identity expenses	-	2,659	4,136
Pension curtailment expense	-	557	654
Amortization of customer lists	20,527	18,611	17,903
Depreciation of plant and equipment	12,374	6,574	7,204
Amortization of deferred charges	6,142	4,760	4,639
Provision for supplemental benefits	1,407	873	565
OPERATING INCOME (LOSS)	16,303	6,886	(1,941)
Other income (expense):			
Interest expense	(41,084)	(34,669)	(33,813)
Interest income	2,292	2,257	2,145
Other	218	1,842	11,445
Loss before income taxes, equity interest and extraordinary item	(22,271)	(23,684)	(22,164)
Income taxes	500	500	500
Loss before equity interest and extraordinary item	(22,771)	(24,184)	(22,664)
Share of income (loss) of Star Gas Partnership	728	2,283	(235)
Loss before extraordinary item	(22,043)	(21,901)	(22,899)
Extraordinary item-loss on early extinguishment of debt	(1,436)	(6,414)	-
NET LOSS	$(23,479)	$(28,315)	$(22,899)
Preferred Stock dividends	(3,263)	(2,389)	(4,644)
NET LOSS APPLICABLE TO COMMON STOCK	$(26,742)	$(30,704)	$(27,543)

Basic and Diluted losses per common share before extraordinary item:			
Class A and C Common Stock	$(1.00)	$(0.95)	$(1.06)
Extraordinary loss per common share:			
Class A and C Common Stock	(0.06)	(0.25)	-
Basic and Diluted losses per common share:			
Class A and C Common Stock	$(1.06)	$(1.20)	$(1.06)

See accompanying notes to consolidated financial statements.

PETROLEUM HEAT AND POWER CO., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)
YEARS ENDED DECEMBER 31, 1995, 1996 AND 1997

(In thousands)

	COMMON STOCK									
	CLASS A		CLASS B		CLASS C		ADDITIONAL PAID-IN CAPITAL	DEFICIT	MINIMUM PENSION LIABILITY ADJ.	TOTAL
	NO. OF SHARES	AMOUNT	NO. OF SHARES	AMOUNT	NO. OF SHARES	AMOUNT				
BALANCE AT DECEMBER 31, 1994	21,340	$2,134	21	$ 2	2,558	$256	$ 71,036	$(132,953)	$(6,651)	$ (66,176)
NET LOSS								(23,479)		(23,479)
CASH DIVIDENDS DECLARED AND PAID (SEE NOTES 6 AND 7)								(14,718)		(14,718)
CASH DIVIDENDS PAYABLE (SEE NOTES 6 AND 7)								(3,822)		(3,822)
REPURCHASE OF CLASS A COMMON STOCK	(1,521)	(152)					(13,439)			(13,591)
CLASS A COMMON STOCK ISSUED	2,875	288					18,229			18,517
CLASS A COMMON STOCK ISSUED UNDER THE DIVIDEND REINVESTMENT PLAN	18	2					137			139
MINIMUM PENSION LIABILITY ADJ.									1,779	1,779
OTHER	(59)	(6)	(7)	(1)			455			448
BALANCE AT DECEMBER 31, 1995	22,653	2,266	14	1	2,558	256	76,418	(174,972)	(4,872)	(100,903)
NET LOSS								(28,315)		(28,315)
CASH DIVIDENDS DECLARED AND PAID (SEE NOTES 6 AND 7)								(13,880)		(13,880)
CASH DIVIDENDS PAYABLE (SEE NOTES 6 AND 7)								(3,857)		(3,857)
CLASS A COMMON STOCK ISSUED UNDER THE DIVIDEND REINVESTMENT PLAN	302	30					2,034			2,064
MINIMUM PENSION LIABILITY ADJ.									(1,193)	(1,193)
OTHER	(24)	(2)	(3)	-	9	1	352			351
BALANCE AT DECEMBER 31, 1996	22,931	2,294	11	1	2,567	257	78,804	(221,024)	(6,065)	(145,733)
NET LOSS								(22,899)		(22,899)
CASH DIVIDENDS DECLARED AND PAID (SEE NOTES 6 AND 7)								(10,479)		(10,479)
CASH DIVIDENDS PAYABLE (SEE NOTES 6 AND 7)								(1,963)		(1,963)
CLASS A COMMON STOCK ISSUED UNDER THE DIVIDEND REINVESTMENT PLAN	691	69					2,331			2,400
MINIMUM PENSION LIABILITY ADJ.									1,419	1,419
OTHER	(16)	(2)			10	1	223			222
BALANCE AT DECEMBER 31, 1997	23,606	$2,361	11	$ 1	2,577	$258	$ 81,358	$(256,365)	$(4,646)	$(177,033)

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See accompanying notes to consolidated financial statements.

PETROLEUM HEAT AND POWER CO., INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

(In thousands)	YEARS ENDED DECEMBER 31,		
	1995	1996	1997
Cash flows from (used in) operating activities:			
Net loss	$(23,479)	$(28,315)	$(22,899)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Amortization of customer lists	20,527	18,611	17,903
Depreciation of plant and equipment	12,374	6,574	7,204
Amortization of deferred charges	6,142	4,760	4,639
Share of (income)loss of Star Gas	(728)	(2,283)	235
Provision for losses on accounts receivable	1,856	1,882	1,853
Provision for supplemental benefits	1,407	873	565
Loss on early extinguishment of debt	1,436	6,414	-
Gain on sale of business	(788)	(1,781)	(11,284)
Other	544	105	(186)
Change in Operating Assets and Liabilities, net of effects of acquisitions and dispositions:			
Decrease (increase) in accounts receivable	(19,285)	117	12,522
Decrease (increase) in inventory	(3,391)	(1,671)	5,799
Decrease (increase) in other current assets	(430)	(575)	845
Decrease (increase) in other assets	240	(86)	(123)
Increase (decrease) in accounts payable	5,872	(3,836)	(4,229)
Increase (decrease) in customer credit balances	(5,938)	(2,142)	3,299
Increase (decrease) in unearned service contract revenue	1,201	(147)	(67)
Increase (decrease) in accrued expenses	733	(2,352)	2,568
Net cash provided by (used in) operating activities	(1,707)	(3,852)	18,644
Cash flows from (used in) investing activities:			
Sale of Star Gas limited partnership interest	51,046	-	-
Minimum quarterly distributions from Star Gas Partnership	-	4,313	5,507
Acquisitions	(26,438)	(28,493)	(16,252)
Capital expenditures	(11,174)	(6,874)	(6,980)
Proceeds from sale of business	1,477	4,073	15,571
Net proceeds from sales of fixed assets	1,702	788	1,174
Net cash provided by (used in) investing activities:	16,613	(26,193)	(980)
Cash flows from (used in) financing activities:			
Net proceeds from Star Gas Corporation debt offering	83,687	-	-
Net proceeds from issuance of common stock	18,656	2,064	2,400
Net proceeds from issuance of preferred stock	-	-	28,323
Net proceeds from issuance of subordinated notes	120,350	-	-
Repayment of notes payable	(80,206)	(1,050)	(1,050)
Redemption of preferred stock	(24,133)	(4,167)	(4,167)
Repurchase of common stock	(14,150)	(39)	-

Repurchase of subordinated notes	-	(49,612)	(1,050)
Credit facility borrowings	20,000	51,000	16,000
Credit facility repayments	(49,100)	(29,000)	(35,000)
Decrease (increase) in restricted cash	(6,000)	3,000	3,000
Cash collateral account payment	-	-	(9,350)
Cash dividends paid	(18,201)	(17,702)	(14,336)
Other	(2,998)	523	(3,301)
Net cash provided by (used in) finacincing activities:	47,905	(44,983)	(18,531)
Net increase (decrease) in cash	62,811	(75,028)	(867)
Cash at beginning of year	15,474	78,285	3,257
Cash at end of year	$ 78,285	$ 3,257	$ 2,390
Supplemental Disclosure of Cash Flow Information:			
Cash paid during the year for:			
Interest	$ 35,122	$ 37,007	$ 33,879
Income taxes	3,255	215	140
Noncash investing and financing activities:			
Issuance of notes payable	8,000	-	-
Acquisitions	(8,000)	-	(26,467)
Asset conveyance to Star Gas	-	-	26,467
Star Gas units received pursuant to asset conveyance	-	-	(3,467)
Increase in tax liability from asset conveyance	-	-	3,467

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Petroleum Heat and Power Co., Inc. ("Petro") and its subsidiaries ("the Company"), each of which is wholly owned. The Company currently operates in twenty-five major markets in the Northeast, including the metropolitan areas of Boston, New York City, Baltimore, Providence, and Washington DC serving approximately three hundred and fifty thousand customers in those areas. Credit is granted to substantially all of these customers with no individual account comprising a concentrated credit risk.

The Company is primarily engaged in the retail distribution of #2 home heating oil, related equipment services, and equipment sales to residential and commercial customers. It operates from 23 branches / depots and 18 satellites primarily in the Northeast United States. #2 home heating oil is principally used by the Company's residential and commercial customers to heat their homes and buildings, and as a result, weather conditions have a significant impact on the demand for the product. Actual weather conditions can vary substantially from year to year, and accordingly can significantly affect the Company's performance.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period.

(IN THOUSANDS, EXCEPT PER SHARE DATA)

Actual results could differ from those estimates.

Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out method. The components of inventories were as follows at the dates indicated:

	December 31, 1996	December 31, 1997
Fuel oil	$14,066	$ 9,246
Parts and equipment	8,018	7,039
	$22,084	$16,285

Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Customer Lists and Deferred Charges

Customer lists are recorded at cost less accumulated amortization. Amortization for the fuel oil customer lists is computed using the straight-line method with 90% of the cost amortized over six years and 10% of the cost amortized over 25 years. Amortization for propane customer lists was computed using the straight-line method with cost amortized over fifteen years.

Deferred charges include goodwill, acquisition costs and payments related to covenants not to compete. The covenants are amortized using the straight-line method over the terms of the related contracts; acquisition costs are amortized using the straight-line method over a six-year period; while goodwill is amortized using the straight-line method over a twenty-five year period. Also included as deferred charges are the costs associated with the issuance of the Company's subordinated debt. Such costs are being amortized using the interest method over the lives of the instruments.

The Company assesses the recoverability of intangible assets at the end of each fiscal year and, when appropriate, at the end of each fiscal quarter, by comparing the carrying values of such intangibles to market values, where a market exists, supplemented by cash flow analyses to determine that the carrying values are recoverable over the remaining estimated lives of the intangibles through undiscounted future operating cash flows. When an intangible asset is deemed to be impaired, the amount of impairment is measured based on market values, as available, or by projected operating cash flows, using a discount rate reflecting the Company's assumed average cost of funds.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Advertising Expenses

Advertising costs are expensed as they are incurred. Advertising expenses were $2,352, $2,947, and $3,294 for 1995, 1996, and 1997 respectively.

Issuance of Stock by Subsidiaries

At the time a subsidiary sells its stock to an unrelated party a gain is recognized only if there are no significant uncertainties regarding realization.

Customer Credit Balances

Customer credit balances represent payments received from customers pursuant to a budget payment plan (whereby customers pay their estimated annual fuel charges on a fixed monthly basis) in excess of actual deliveries billed.

Revenue Recognition

Sales of fuel oil and heating equipment are recognized at the time of delivery of the product to the customer or at the time of sale or installation. Revenue from repairs and maintenance service is recognized upon completion of the service. Payments received from customers for heating equipment service contracts are deferred and amortized into income over the terms of the respective service contracts, on a straight line basis, which generally do not exceed one year.

Concentration of Revenue with Guaranteed Maximum Price Customers

Approximately 25% of the Company's heating oil volume is sold to individual customers under an agreement pre-establishing the maximum sales price of oil over a twelve month period. The maximum price at which oil is sold to these capped-price customers is renegotiated in the Spring of each year in light of then current market conditions. The Company currently enters into forward purchase contracts and futures contracts for a substantial majority of the oil it sells to these capped-price customers in advance and at a fixed cost. Should events occur after a capped-sales price is established that increases the cost of oil above the amount anticipated, margins for the capped-price customers whose oil was not purchased in advance would be lower than expected, while those customers whose oil was purchased in advance would be unaffected. Conversely, should events occur during this period that decrease the cost of oil below the amount anticipated, margins for the capped-price customers whose oil was purchased in advance could be lower than expected, while those customers whose oil was not purchased in advance would be unaffected or higher than expected.

The Company purchases put options to hedge the risk associated with a decrease in heating oil prices in situations where forward purchase contracts and futures contracts have been entered into to match capped-price customer commitments. Should the market price of heating oil decline below the forward purchase contract or futures contract price, these options would substantially offset the effects of such decline. The cost of acquiring these options is recognized in cost of goods sold over the life of each option agreement.

In accordance with SFAS No. 80, "Accounting for Futures Contracts," futures contracts are classified as a hedge when the item to be hedged exposes the company to price risk and the futures contract reduces that risk exposure. Future contracts that relate to transactions that are expected to occur are accounted for as a hedge when the significant characteristics and expected terms of the anticipated transactions are identified and it is probable that the anticipated transaction will occur. If a transaction does not meet the criteria to qualify as a hedge, it is considered to be speculative. Any gains or losses associated with futures contracts which are classified as speculative are recognized in the current period. If a futures contract that has been accounted for as a hedge is closed or matures before the date of the anticipated transaction, the accumulated change in value of the contract is carried forward and included in the measurement of the related transaction. Option contracts are accounted for in the same manner as futures contracts. At December 31, 1996 there were no futures contracts outstanding, and at December 31, 1997 the Company had futures contracts to buy #2 home heating oil with notional amounts totaling $11,925 and futures contracts to sell #2 home heating oil with notional amounts totaling $5,061.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Concentration of Revenue with Guaranteed Maximum Price Customers - (Continued)

At December 31, 1996 the Company had put options outstanding with an aggregate notional value of $12,088 to hedge the risk associated with approximately 66% of the 32.9 million gallons of heating oil forward purchase contracts. Additionally, the Company had put options outstanding at December 31, 1997 with an aggregate notional value of $14,438 to hedge the risk associated with approximately 60% of the 33.8 million gallons of heating oil forward purchase contracts and 11.6 million gallons under futures contracts, and expire at various times with no option expiring later than April 1998. The unrealized gains (losses) on these options was not significant at December 31, 1996 and 1997. The carrying amount of these options at December 31, 1996 and 1997 was $258 and $488 respectively, and were included in Prepaid Expenses on the Consolidated Balance Sheet. The risk that counterparties to such instruments may be unable to perform is minimized by limiting the counterparties to major oil companies and major financial institutions. The Company does not expect any losses due to such counterparty default.

Environmental Costs

The Company expenses, on a current basis, costs associated with managing hazardous substances and pollution in ongoing operations. The Company also accrues for costs associated with the remediation of environmental pollution when it becomes probable that a liability has been incurred and the amount can be reasonably estimated.

Income Taxes

The Company files a consolidated Federal Income Tax return with its subsidiaries. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Pensions

The Company funds accrued pension costs currently on its pension plans, all of which are noncontributory.

Basic and Diluted Earnings (Losses) per Common Share

The company computes basic and diluted earnings per share in accordance with the requirements of the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 128 - "Earnings Per Share". As the impact of converting dilutive securities would be antidilutive, the computation treats such conversions as having no effect and presents basic and diluted earnings per share as the same amount (see note 18).

Accounting Changes

In February 1997, the FASB issued SFAS No. 128 - "Earnings Per Share." SFAS No. 128 requires presentation of "basic" and "diluted" earnings per share for periods ending after December 15, 1997. The Company adopted SFAS No. 128 and had no effect on previously reported earnings (losses) per share.

In February 1997, the FASB issued SFAS No. 129 - "Disclosure of Information about Capital Structure." SFAS No. 129 requires disclosure of all the pertinent rights and privileges of securities outstanding for periods ending after December 15, 1997. The Company adopted SFAS No. 129, which had no effect on previous disclosures.

In June 1997, the FASB issued SFAS No. 130 - "Reporting Comprehensive Income." SFAS No. 130 establishes standards for reporting and displaying changes in equity that results from non-owner transactions and events. This statement is effective for fiscal years beginning after December 15, 1997 and will be reflected in the Company's First Quarter Report on Form 10-Q.

In June 1997 the FASB issued SFAS No. 131 - "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 requires disclosures about segments of an enterprise and related information such as the different types of business activities and economic environments in which a business operates. This statement is effective for fiscal years beginning after December 15, 1997. The Company is still assessing the disclosure requirements of SFAS No. 131.

(2) STAR GAS INVESTMENT

In December 1993, the Company acquired an approximate 29.5% equity interest (42.8% voting interest) in Star Gas for $16.0 million in cash. Each of the other investors in Star Gas granted the Company an option, exercisable to December 31, 1998, to purchase such investor's interest in Star Gas. In December 1994, the Company exercised its right to purchase the remaining outstanding common equity of Star Gas by paying $3.8 million in cash and issuing approximately 2.5 million shares ($22.1 million) of the Company's Class A Common Stock. The Company also incurred $0.9 million of acquisition related cost in connection with the Star Gas acquisition. The acquisition was accounted for as a purchase and accordingly the purchase price was allocated to the underlying assets and liabilities based upon the Company's estimate of their respective fair value at the date of acquisition. The fair value of assets acquired was $141.3 million (including $3.3 million in cash) and liabilities and preferred stock was $109.5 million. The excess of the purchase price over the fair value of assets acquired and liabilities assumed was $9.0 million and was being amortized over a period of twenty-five years.

The Company's investment in Star Gas Corporation was accounted for using the equity method from December 23, 1993 to December 7, 1994, at which time the Company exercised its right to purchase the remaining outstanding common equity of Star Gas (the "Star Gas Acquisition"). From December 8, 1994 to December 19, 1995 while Star Gas was a wholly owned subsidiary of Petro, Star Gas operations, assets and liabilities were included in the consolidated financial statements of the Company.

In November 1995, Star Gas organized Star Gas Partners, L.P. a Delaware limited partnership ("Partnership") and Star Gas and the Partnership together organized Star Gas Propane, L.P., a Delaware limited partnership ("Operating Partnership"). In December 1995, Petro transferred substantially all of its propane assets and liabilities to Star Gas, and Star Gas transferred ("Star Gas Conveyance") substantially all of its assets (including the propane assets transferred by Petro) in exchange for a general partnership interest in the Operating Partnership and the assumption by the Operating Partnership of substantially all of the liabilities of Star Gas. The total value of the assets conveyed to the Operating Partnership was $156.5 million. Concurrently with the Star Gas Conveyance, Star Gas issued approximately $85.0 million in First Mortgage Notes to certain institutional investors. In connection with the Star Gas Conveyance, the Operating Partnership assumed $91.5 million of Star Gas liabilities including the $85.0 million of First Mortgage Notes; however, Star Gas retained approximately $83.7 million in cash from the proceeds of the First Mortgage Notes. As a result of the foregoing transactions ("1995 Star Gas Transaction"), Star Gas received a 46.5% equity interest in the Partnership, and Petro received distributions from the public sale of 2.6 million Master Limited Partnership units at $20.46 per share for $51.0 million in cash. In order for the Partnership to begin operations with $6.2 million of working capital, Star Gas and the Operating Partnership agreed that the amount of debt assumed by the Operating Partnership would be adjusted upward or downwards to the extent that the working capital of the Operating Partnership at closing was more or less than $6.2 million. At closing, the net working capital of the Operating Partnership was $9.2 million and as a result, $3.0 million was paid to Petro in

(IN THOUSANDS, EXCEPT PER SHARE DATA)

January 1996.

In accordance with the Company's accounting policies, the Company deferred the gain of approximately $20.0 million for this transaction because the Company holds subordinate units which do not have a readily ascertainable market price creating an uncertainty regarding realization, and due to the fact that Star Gas as general partner had a $6.0 million additional capital contribution obligation to enhance the Partnership's ability to make quarterly distributions on the common units (at December 31, 1997, these funds were no longer restricted at the Star Gas level and had been released to Petro since the quarterly guarantee provisions were fulfilled). The Company will recognize the gain from this transaction when the Company's subordinated units convert into common units in accordance with the terms of the partnership agreement. In general, full conversion of subordinated units to common units will take place no earlier than the first day of any quarter beginning on or after January 1, 2001, based upon the satisfaction of certain performance criteria for a period of at least three non-overlapping consecutive four-quarter periods immediately preceding the conversion date.

(2) STAR GAS INVESTMENT (CONTINUED)

In October 1997, Star Gas acquired the outstanding stock of an unaffiliated Ohio propane company ("1997 Star Gas Transaction") and in an equal exchange subsequently transferred all of such assets to the Partnership for the assumption of $23 million of debt incurred by Star Gas in connection with this acquisition, a 0.00027% general partnership interest in the Partnership along with 148 Partnership common units, and the assumption by Star Gas of approximately $3.5 million of future income tax liabilities resulting from this asset conveyance. Subsequently in December 1997, the Company sold 24 common units and in January 1998 sold 63 common units.

As a result of the 1997 Star Gas Transaction, at December 31, 1997 the Company had a 41.66% equity interest in the Partnership, which was reduced to 40.66% after the January 1998 sale of common units, which is being accounted for by the equity method. Additionally, the Partnership's secondary public offering in December 1997 resulted in a difference of $2.4 million between the Company's carrying value of its investment in the Partnership and its ownership percentage of the underlying net assets of the Partnership, which is being amortized to income over twenty-five years.

(3) PROPERTY, PLANT AND EQUIPMENT

The components of property, plant and equipment and their estimated useful lives were as follows at the indicated dates:

	December 1996	December 1997	Estimated Useful Lives
Land	$ 2,049	$ 2,088	
Buildings	6,030	5,641	20-45 years
Fleet and other equipment	38,480	38,065	3-7 years
Tanks and equipment	1,438	1,460	8-30 years
Furniture and fixtures	18,436	18,678	5-7 years
Leasehold improvements	5,820	7,465	Term of leases
	72,253	73,397	
Less accumulated depreciation	41,587	42,782	

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	$30,666	$30,615

(4) NOTES PAYABLE AND OTHER LONG-TERM DEBT

Notes payable and other long-term debt, including working capital borrowings and current maturities of long-term debt, consisted of the following at the indicated dates:

	December 31,	
	1996	1997
Notes payable to banks under credit facility (a)	$22,000	$ 3,000
Notes payable in connection with the purchase of fuel oil dealers and other notes payable, due in monthly, quarterly and annual installments with interest at various rates ranging from 8% to 10% per annum, maturing at various dates through the year 2004	17,734	16,798
	39,734	19,798
Less current maturities, including working capital borrowings	22,947	3,291
	$16,787	$16,507

a) Pursuant to a Credit Agreement, dated October 15, 1997 as restated and amended (Credit Agreement), the Company may borrow up to $47.0 million under a working capital revolving credit facility with a sublimit under a borrowing base established each month. Amounts borrowed under the working capital revolving credit facility are subject to a 60 day clean-up requirement during the period April 1 to September 30 of each year, and this portion of the Credit Agreement expires on June 30, 1998. The Company expects to renew or replace this working capital revolving credit facility prior to June 30, 1998. The Company pays a facility fee of 0.375% on the unused portion of this facility. At December 31, 1997, $3.0 million was outstanding under the working capital revolving credit facility.

(4) NOTES PAYABLE AND OTHER LONG-TERM DEBT - (CONTINUED)

a) - (Continued)

The Credit Agreement also includes a $16.8 million acquisition letter of credit facility all of which has been used to support notes given to certain sellers of heating oil companies. The Credit Agreement provides that on or prior to June 30, 1998, repayments and/or sinking fund deposits equal to two-thirds of the initial facility outstanding at September 30, 1996 would be payable with the final payment due June 30, 1999. In October 1997, in connection with the Company's sale of its Hartford, Connecticut branch $9.4 million of the proceeds from the sale were set aside to fulfill the June 1998 cash collateral requirement, and the working capital portion of the Credit Agreement was reduced from $60.0 million to $47.0 million.

Interest under the Credit Agreement is payable monthly on the working capital revolving credit facility and is based upon a floating rate selected by the Company of either the Eurodollar Rate or the Alternate Base Rate, plus 0 to 75 basis points on Alternate Base Rate Loans and 125 to 200 basis points on Eurodollar Loans, based upon the ratio of Consolidated Operating Profit to Interest Expense (as defined in the Credit Agreement). Eurodollar Rate means the prevailing rate in the interbank Eurodollar market adjusted for reserve requirements. Alternate Base Rate means the greater of (i) the prime or base rate of The Chase Manhattan Bank in effect or (ii) the Federal funds rate in effect plus 1/2 of 1%. The weighted average rate for 1996 and 1997 was 8.48% and 7.75% respectively.

(IN THOUSANDS, EXCEPT PER SHARE DATA)

The fees for the Credit Agreement acquisition letters of credit range from 175 to 250 basis points based upon the same ratio as that used for the working capital revolving credit facility. To the extent that the letters of credit are cash collateralized the fee is reduced to 25 basis points.

Under the terms of the Credit Agreement, the Company is restricted from incurring any indebtedness except subordinated debt and certain other indebtedness specifically authorized, if certain ratios of EBITDA to interest are met. The Company is also restricted from selling, transferring, or conveying customer lists except, among other exceptions, from a sale where the net cash proceeds are used to cash collateralize the acquisition letters of credit. The Credit Agreement also provides that the Company is required to maintain certain minimum levels of cash flow and EBITDA, as well as certain ratios of EBITDA to net interest expense. In the event of noncompliance with certain of the covenants, the bank has the right to declare all amounts outstanding to be due and payable immediately.

As collateral for the Credit Agreement, the Company granted to the lenders a security interest in the inventories, receivables, and customer lists, trademarks and trade names which are carried on the December 31, 1997 Consolidated Balance Sheet at $16.3 million, $79.0 million, and $69.3 million respectively.

Aggregate annual maturities including working capital borrowings, but excluding the June 1998 acquisition letter of credit facility cash collateral requirement which was satisfied by the $9.4 million October 1997 cash collateral account payment, are as follows as of December 31, 1997:

Years Ending December 31,	
1998	$ 3,291
1999	8,126
2000	8,141
2001	60
2002	60
Thereafter	120
	$19,798

(5) SENIOR AND SUBORDINATED NOTES PAYABLE

Senior and Subordinated notes payable at the dates indicated, consisted of:

	December 31, 1996	December 31, 1997
11.85%, 12.17% and 12.18% Senior Notes (a)	$ 60,000	$ 60,000
14.10% Subordinated and Senior Notes (b)	10,400	8,300
10 1/8% Subordinated Notes (c)	50,000	50,000
9 3/8% Subordinated Debentures (d)	75,000	75,000
12 1/4% Subordinated Debentures (e)	81,250	81,250
Total Senior and Subordinated Notes Payable	276,650	274,550
Less short-term Subordinated Notes (b)	1,050	1,050
Less short-term Senior Notes (b)	1,050	1,050
Less long-term Senior Notes (a)(b)	34,150	63,100
Total long-term Subordinated Notes Payable	$240,400	$209,350

a) On September 1, 1988, the Company authorized the issuance of $60.0 million of Subordinated Notes originally due October 1, 1998 bearing interest payable semiannually at an average rate of 11.96% ("11.96% Notes"). In connection with the Company's 9 3/8% Subordinated Debenture offering in February 1994 (see note 5d) $30.0 million of the 11.96% Notes became ranked as senior debt. In February 1997 the Company entered into agreements ("Private Debt Modification") to among other things, exchange $30.0 million of the 11.96% Notes then ranked as subordinated debt for senior debt, and to extend the maturity date of the 11.96% Notes from October 1, 1998 to October 1, 2002 with $15.0 million sinking fund payments due on October 1, 2000 and October 1, 2001 and the remaining $30.0 million balance due on October 1, 2002. The Company paid approximately $1.1 million in fees and expenses to obtain such modifications. In addition, effective October 1, 1998, the interest on these notes will be lowered to 10.9%. All such notes are redeemable at the option of the Company, in whole or in part upon payment of a premium rate as defined.

b) On January 15, 1991, the Company authorized the issuance of $12.5 million of 14.10% Subordinated Notes due January 15, 2001 bearing interest payable quarterly. In connection with the Company's 9 3/8% Subordinated Debenture offering in February 1994 (see note 5d) $6.25 million of these notes became ranked as senior debt. The notes are redeemable at the option of the Company, in whole or in part upon payment of a premium rate as defined. On each January 15th commencing 1996 and ending January 15, 2000, the Company is required to repay $2.1 million of these Notes. The remaining principal of $2.0 million is due on January 15, 2001. No premium is payable in connection with these required payments.

c) On April 6, 1993, the Company issued $50.0 million of 10 1/8% Subordinated Notes due April 1, 2003 which are redeemable at the Company's option, in whole or in part, at any time on or after April 1, 1998 upon payment of a premium rate as defined. Interest is payable semiannually.

d) On February 3, 1994, the Company issued $75.0 million of 9 3/8% Subordinated Debentures due February 1, 2006 which are redeemable at the Company's option, in whole or in part, at any time on or after February 1, 1999 upon payment of a premium rate as defined. Interest is payable semiannually.

In connection with the offering of its 9 3/8% Subordinated Debentures, the Company received consents of the holders of a majority of each class of subordinated debt and redeemable preferred stock (see note 7) to certain amendments to the respective agreements. In consideration for the consents, the Company paid holders of certain subordinated debt a cash payment of $0.6 million and caused approximately $42.6 million of the subordinated debt at December 31, 1994 to be ranked as senior debt. In addition, the Company agreed to increase dividends on the redeemable preferred stock by $2.00 per share per annum. The Company also paid approximately $1.5 million in fees and expenses to obtain such consents.

(IN THOUSANDS, EXCEPT PER SHARE DATA)

(5) SENIOR AND SUBORDINATED NOTES PAYABLE (CONTINUED)

e) On February 3, 1995, the Company issued $125.0 million of 12 1/4% Subordinated Debentures due February 1, 2005 which are redeemable at the Company's option, in whole or in part, at any time on or after February 1, 2000 upon payment of a premium rate as defined. On February 5, 1996, a portion of the proceeds received as a result of the Star Gas MLP Offering (see note 2) were used to retire $43.8 million of the $125.0 million 12 1/4% Subordinated Debentures. The Company paid $4.8 million, representing an 11% premium to retire this portion of the debt. Interest on these debentures is payable semi-annually.

Expenses connected with the above outstanding offerings, and amendments thereto, amounted to approximately $15.8 million, which includes $1.2 million paid in debt consents permitting the Star Gas MLP Offering (see note 2). At December 31, 1996 and 1997, the unamortized balances relating to notes still outstanding amounted to approximately $8.7 million and $8.4 million respectively, and such balances are included in Deferred Charges and Pension Costs on the Consolidated Balance Sheet.

Aggregate annual maturities including sinking fund payments at December 31, 1997 are as follows:

Years Ended December 31,	
1998	$ 2,100
1999	2,100
2000	17,100
2001	17,000
2002	30,000
Thereafter	206,250
	$274,550

Total accrued interest on notes payable, and senior and subordinated notes which were included in accrued expenses and other liabilities were $10,730 and $10,664 at December 31, 1996 and 1997 respectively.

(6) COMMON STOCK AND COMMON STOCK DIVIDENDS

The Company's outstanding Common Stock consists of Class A Common Stock, Class B Common Stock and Class C Common Stock, each with various designations, rights and preferences.

Holders of Class A Common Stock and Class C Common Stock have identical rights, except that holders of Class A Common Stock are entitled to one vote per share and holders of Class C Common Stock are entitled to ten votes per share. Holders of Class B Common Stock do not have voting rights, except as required by law, or in certain limited circumstances.

The following table summarizes the cash dividends declared on Common Stock and the cash dividends declared per common share for the years indicated:

	Years Ended December 31,		
	1995	1996	1997

Cash dividends declared			
Class A	$13,716	$13,789	$7,019
Class C	1,559	1,559	779
Cash dividends declared per share			
Class A	$ .60	$ .60	$ .30
Class C	.60	.60	.30

Under the Company's most restrictive dividend limitation imposed by certain debt covenants, $26.1 million was available at December 31, 1997 for the payment of dividends on all classes of Capital Stock. The amount available for dividends is increased each quarter by 50% of the cash flow, as defined, for the previous fiscal quarter, and by the new issuance of capital stock. On February 24, 1998, the Company announced the suspension of cash dividends.

(6) COMMON STOCK AND COMMON STOCK DIVIDENDS (CONTINUED)

On February 3, 1995, the Company issued 2,875 shares of Class A Common Stock in a public offering in connection with the issuance of $125.0 million of 12 1/4% Subordinated Debentures due February 1, 2005 and used a portion of the proceeds to retire 1,521 shares of Class A Common Stock which shares were issued to a third party in the Star Gas Acquisition (see note 5e).

On October 1, 1995 the Company began offering a Dividend Reinvestment and Stock Purchase Plan which provides holders of the Company's Class A Common Stock and Class C Common Stock a vehicle to reinvest their dividends and purchase additional shares of Class A Common Stock at a 5% discount from the current market price without incurring any fees. In addition, optional cash deposits receive a 3% discount from the market price. Pursuant to the plan offering, 18, 302, and 691 additional Class A Common Shares were issued in 1995, 1996, and 1997 respectively.

(7) REDEEMABLE AND EXCHANGEABLE PREFERRED STOCK

The Company entered into agreements dated as of August 1, 1989 with John Hancock Mutual Life Insurance Company and Northwestern Mutual Life Insurance Company to sell up to two hundred and fifty thousand shares of its Redeemable Preferred Stock, par value $0.10 per share, at a price of one hundred dollars per share, which shares are exchangeable into Subordinated Notes due August 1, 1999 (1999 Notes).

On August 1 of each year, one-sixth of the number of originally issued shares of each series of Redeemable Preferred shares outstanding, less the number of shares of such series previously exchanged for 1999 Notes, are to be redeemed, with the final redemption occurring on August 1, 1999. The redemption price is one hundred dollars per share plus all accrued and unpaid dividends to such August 1. As of December 31, 1996 and 1997, 125 shares and 83 shares respectively were outstanding of which 42 shares were reflected as current.

In February 1997 the Company issued one million two hundred thousand shares of its 12 7/8% Exchangeable Preferred Stock (Exchangeable Preferred Stock) due February 15, 2009, par value $0.10 per share, at a price of twenty-five dollars per share. The Company incurred $1,678 of offering costs in connection with this preferred stock issuance. Dividends are payable on these shares on February 15, May 15, August 15 and November 15 of each year. The liquidation preference on the Exchangeable Preferred Stock is twenty-five dollars per share, and they are redeemable at the option of the Company in whole or in part, at any time on or after February 15, 2002 upon payment of a premium rate as defined. Subject to certain conditions the Company may also issue an additional eight hundred thousand shares of Exchangeable Preferred Stock. Also, on any scheduled dividend payment date on or after February 15, 2000 at the Company's option these Exchangeable Preferred Stock may be exchanged into 12 7/8% Junior Subordinated Exchange Debentures due 2009. At December 31, 1997 $30.0 million of Exchangeable Preferred Stock was outstanding.

(IN THOUSANDS, EXCEPT PER SHARE DATA)

Preferred dividends of $3,263, $2,389, and $4,644 were declared on all classes of preferred stock in 1995, 1996, and 1997 respectively.

Aggregate annual maturities of Redeemable Preferred Stock and Exchangeable Preferred Stock are as follows as of December 31, 1997:

Years Ended December 31	
1998	$ 4,167
1999	4,167
2000	-
2001	-
2002	-
Thereafter	30,000
	$38,334

(8) PENSION PLANS

Effective December 31, 1996 the Company consolidated all of its defined contribution pension plans and froze the benefits for nonunion personnel covered under defined benefit pension plans. In the third quarter of 1997 the Company froze the benefits of its New York City union defined benefit pension plan as a result of operation consolidations. In freezing the defined benefit pension plans and the New York City union defined benefit pension plan the Company incurred $557 and $654 in 1996 and 1997 respectively, for pension curtailment expenses relating to the amortization of certain previously unrecognized pension costs.

The defined benefit and defined contribution plans covered substantially all of the Company's nonunion employees. Benefits under the frozen defined benefit plans were generally based on years of service and each employee's compensation. Benefits under the consolidated defined contribution plan are based on an employees compensation. Pension expense under all non-union plans for the years ended December 31, 1995, 1996 and 1997 was $4,378, $4,350 and $4,036 respectively, net of amortization of the pension obligation acquired.

The following table sets forth the defined benefit plans' funded status, all of which are underfunded, and amounts recognized in the Company's balance sheets at the indicated dates:

	1996	1997
Actuarial present value of benefit obligations:		
Accumulated benefit obligations, including vested benefits of $28,731 and $28,910	$ 29,323	$ 29,258
Projected benefit obligation	$(29,323)	$(29,258)
Plan assets at fair value (primarily	20,367	22,292

(IN THOUSANDS, EXCEPT PER SHARE DATA)

listed stocks and bonds)		
Projected benefit obligation in excess of plan assets	(8,956)	(6,966)
Unrecognized net loss from past experience different from the assumed and effects of changes in assumptions	6,053	5,609
Unrecognized net transitional obligation	(65)	(52)
Unrecognized prior service cost due to plan amendments	453	-
Additional liability	(6,441)	(5,557)
Accrued pension cost for defined benefit plans	$ (8,956)	$ (6,966)

Net pension cost for defined benefit plans for the periods indicated included the following components:

	Years Ended December 31,		
	1995	1996	1997
Service cost-benefits earned during the period	$ 1,459	$ 1,630	$ 116
Interest cost on projected benefit obligation	2,032	1,974	1,895
Actual return on assets	(3,116)	(2,058)	(2,780)
Net amortization and deferral of losses	2,517	1,299	1,492
Net periodic pension cost for defined benefit plans	2,892	2,845	723
Curtailment loss	-	557	654
Total cost	$ 2,892	$ 3,402	$ 1,377
Assumptions used in the pension calculations were:			
Discount rate	7.0%	6.5%	6.5%
Rates of increase in compensation levels	4.0%	4.0%	4.0%
Expected long-term rate of return on assets	8.5%	8.5%	8.5%

In addition, the Company made contributions to union-administered pension plans during the years ended December 31, 1995, 1996 and 1997 of $3,148, $2,996 and $2,508 respectively.

(8) PENSION PLANS - (CONTINUED)

The Company recorded an additional minimum pension liability for underfunded plans of $4,594 as of December 31, 1997, representing the excess of unfunded accumulated benefit obligations over plan assets. A corresponding amount is recognized as an intangible asset except to the extent that these additional liabilities exceed the related unrecognized prior service costs and net transition obligation, in which case the increase in liabilities is charged as a reduction of stockholders' equity of $4,646 as of December 31, 1997.

In connection with the purchase of shares of a predecessor company as of January 1, 1979 by a majority of the Company's present holders of Class C Common Stock, the Company assumed a pension liability in the aggregate amount of $1,512 as adjusted, representing the excess of the actuarially computed present value of accumulated vested plan benefits over the net assets available for such benefits. Such liability, which amounted to $1,108 and $1,134 at December 31, 1997 and 1996 is being amortized over 40 years and is included in supplemental benefits and other long-term liabilities at those dates.

Under a 1992 supplemental benefit agreement, Malvin P. Sevin, the Company's then Chairman and Co-Chief Executive Officer, was entitled to receive $25 per month for a period of one hundred twenty months following his retirement. In the event of his death, his designated beneficiary is entitled to receive such benefit. Mr. Sevin passed away in December 1992, prior to his retirement. The amounts accrued for such benefit payable net of payments made at December 31, 1996 and 1997 were $1,387 and $1,204 respectively and are included in supplemental benefits and other long-term liabilities on the balance sheets at those dates.

(9) LEASES

The Company leases office space and other equipment under noncancelable operating leases which expire at various times through 2017. Certain of the real property leases contain renewal options and require the Company to pay property taxes.

The future minimum rental commitments at December 31, 1997 for all operating leases having an initial or remaining noncancelable term of one year or more are as follows:

Years Ending December	Operating Leases
1998	$ 4,375
1999	3,890
2000	3,357
2001	2,973
2002	3,001
Thereafter	19,892
	$37,488

Rental expense under operating leases for the years ended December 31, 1995, 1996 and 1997 was $7,624, $6,461 and $7,475 respectively.

(10) INCOME TAXES

Income tax expense was comprised of the following for the indicated periods:

	Years Ended December 31,		
	1995	1996	1997
Current:			
Federal	$ -	$ -	$ -
State	500	500	500
	$ 500	$ 500	$ 500

PETROLEUM HEAT AND POWER CO., INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

(10) INCOME TAXES - (CONTINUED)

The sources of deferred income tax expense (benefit) and the tax effects of each were as follows:

	Years Ended December 31,		
	1995	1996	1997
Excess of book over tax (tax over book) depreciation	$ 1,624	$ (81)	$ (227)
Excess of book over tax amortization expense	(1,139)	(2,051)	(2,490)
Excess of book over tax vacation expense	(75)	(180)	(107)
Excess of book over tax restructuring expense	-	(206)	(618)
(Excess of book over tax) tax over book bad debt expense	44	(41)	37
(Excess of book over tax) tax over book supplemental benefit expense	(14)	(14)	14
Equity in income (loss) of Star Gas	(187)	2,597	1,037
Other, net	(40)	(228)	5
Recognition of tax benefit of net operating loss to the extent of current and previous recognized temporary differences	(7,843)	(9,114)	(4,491)
Change in valuation allowance	7,630	9,318	6,840
	$ -	$ -	$ -

The components of the net deferred tax assets and the related valuation allowance for 1996 and 1997 using current rates were as follows:

	Years Ended December 31,	
	1996	1997
Net operating loss carryforwards	$ 35,199	$ 39,690
Excess of tax over book depreciation	(5,041)	(4,814)
Excess of book over tax amortization	3,624	6,114
Excess of book over tax vacation expense	1,493	1,600
Excess of book over tax restructuring expense	206	824
Excess of book over tax supplemental benefit expense	680	666
Excess of book over tax bad debt expense	370	333
Equity in loss (income) of Star Gas	(1,738)	(2,775)
Other, net	365	360
	35,158	41,998
Valuation allowance	(35,158)	(41,998)
	$ -	$ -

(IN THOUSANDS, EXCEPT PER SHARE DATA)

A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. The Company has determined, based on the Company's recent history of annual net losses, that a full valuation allowance is appropriate.

At December 31, 1997, the Company had the following income tax loss carryforwards for Federal Income Tax reporting purposes:

Expiration Date	
2005	$ 26,651
2006	15,012
2007	1,367
2008	8,400
2009	1,662
2010	23,356
2011	26,554
2012	13,734
	$116,736

(11) RELATED PARTY TRANSACTIONS

The Company leased two buildings for a total of $435 from certain related parties under lease agreements that were established by an independent fair market rental evaluation. In the fourth quarter of 1997 one of the facilities was sold to an independent party who continued to rent the property under the same terms to the Company, while the other was sold and the lease terminated as part of the 1997 New York Region consolidation.

In October 1986, Irik P. Sevin purchased one hundred sixty-one thousand shares of Class A Common Stock and forty thousand shares of Class C Common Stock of the Company for $1,280 (which was the fair market value as established by the Pricing Committee pursuant to the Stockholders' Agreement). The purchase price was financed by a note due December 31, 1999. The note requires annual payments of interest and principal, payable in cash or Class A Common Stock of the Company, until complete satisfaction. In accordance with the note repayment schedule and the criteria for stock payment valuation, Mr. Sevin surrendered fifty-nine thousand Class A Common Shares representing $439 of value, sixty-one thousand Class A Common Shares representing $411 of value, and sixty-two thousand Class A Common Shares representing $392 of value in December 1995, 1996 and 1997 respectively. The criteria agreed upon for valuing stock payment for this transaction is the average market price ten days prior to payment or $6.3479 per share, whichever is greater. The outstanding balance of the note was $1,312, $984, and $656 at December 31, 1995, 1996, and 1997 respectively. Interest accrues on the outstanding balance of the note at the LIBOR rate in effect for each month plus 0.75%. Mr. Sevin has entered into an agreement with the Company that he will not sell or otherwise transfer to a third party any of the shares of Class A Common Stock or Class C Common Stock received pursuant to this transaction until the note has been paid in full.

The existing holders of Class C Common Stock of the Company have entered into a Shareholders' Agreement which provides that each will vote his shares to elect certain designated directors. The Shareholders' Agreement also provides for first refusal rights to the Company if a holder of Class C Common Stock receives a bona fide written offer from a third party to buy such holder's Class C Common Stock.

(12) RESTRUCTURING CHARGES

Late in 1995 the Company completed a study engaged with a leading consulting firm to help provide a structure for superior customer service, a brand image, and reduced operating costs. Over the last few years the Company has dedicated a large amount of effort toward defining the best organizational structure, and has implemented various initiatives toward achieving this objective.

As part of the initial implementation of this program, Petro undertook certain business improvement strategies in its Long Island, New York region. These steps included the consolidation of the region's five home heating oil branches into one central customer service center and three depots. The regional customer service center consolidated accounting, credit, customer service and the sales function into a single new facility in Port Washington, Long Island. All external communications and marketing previously undertaken in the five branches were centralized into this one location freeing the three newly configured depots to focus on oil delivery and heating equipment repair, maintenance and installation, in mutually exclusive operating territories. The Company incurred $1.2 million in restructuring expenses in 1996, for costs associated with the initial implementation of the restructuring program.

In 1997 the Company continued with its restructuring program and combined its three New York City branches into one new central depot that specialized in delivery, installation, maintenance, and service functions, and like the Long Island depots, be supported by the Port Washington facility. The Company also proceeded with its commitment to define the best possible organizational structure, by restructuring select branch and corporate responsibilities to eliminate redundant functions and locate responsibilities where they can best serve customers and the Company. Toward achieving these strategic intentions the Company incurred $2.9 million in restructuring expenses in 1997, which comprised of $2.0 million in termination benefit arrangements with certain branch and corporate employees and $0.9 million for continuing lease obligations for unused, non-cancelable, non-strategic facilities. The total unpaid amounts included in accrued expenses and other liabilities are $605 and $2,421 respectively at December 31, 1996 and 1997.

(13) STOCK OPTIONS

On March 3, 1989, the Company issued stock options to purchase seventy-two thousand shares of Class A Common Stock and eighteen thousand shares of Class C Common to Irik P. Sevin and forty-eight thousand shares of Class A Common Stock and twelve thousand shares of Class C Common Stock to Malvin P. Sevin. The option price for each such share is $11.25. These options are nontransferable. Malvin P. Sevin's options expired in March 1994 unexercised while the expiration date of Irik P. Sevin's options were extended to March 3, 1999.

In March 1994 the Company issued stock options to Irik P. Sevin to purchase one hundred thousand shares of Class A Common Stock. The option price for each such share is $8.50, the then market value of the stock on the date the options were granted. These options are non-transferable and expire on March 31, 2004.

None of the aforementioned options of Irik and Malvin Sevin were granted under a Stock Option Plan and no other options were authorized at the time the options were issued. All options granted vested upon issuance and were issued at an exercise price that was estimated to be fair value at the date of grant.

In June 1994, the Board of Directors and shareholders adopted the Petroleum Heat and Power Co., Inc. 1994 Stock Option Plan, which authorized one million shares of the Company's Class A Common Stock to be granted from time to time, and to vest at various times, to key employees, officers, directors, consultants, advisers, or agents, who help contribute to the long-term success and growth of the firm, at prices not less than the fair market value at the date of grant and at terms not to exceed ten years.

(IN THOUSANDS, EXCEPT PER SHARE DATA)

As allowable by SFAS No. 123, the Company will continue to apply APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for its stock compensation plan, and accordingly will not recognize compensation expense for its stock-based compensation plan.

Had compensation cost for this plan been determined based upon the fair value at the grant date for awards under this plan consistent with the methodology prescribed under SFAS No. 123, the Company's net loss and loss per share for 1996 and 1997 would have been increased by approximately forty-four thousand dollars, or $0.0017 per share, and nineteen thousand dollars, or $0.0007 per share respectively. All options were granted at an amount equal to the quoted market price of the Company's stock at the date of the grants and vest at various times with no vesting period exceeding five years. The costs charged against income for options granted are based on the following assumptions calculated on a straight line basis over the vesting period of the grants. The average fair value of the options granted during 1996 was $0.76 per option on the date of grant using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 9.41%, volatility of 27%, risk-free interest rate of 6.26%, assumed forfeiture rate of 0%, and an average expected life of 8.19 years. The average fair value of the options granted during 1997 was $0.21 per option on the date of grant using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 12.97%, volatility of 35%, risk-free interest rate of 6.19%, assumed forfeiture rate of 0%, and an average expected life of 10 years.

(13) STOCK OPTIONS - (CONTINUED)

Information relating to stock options during 1995, 1996 and 1997 are summarized as follows:

	Range of Exercise Prices	Number of Shares Class A	Number of Shares Class C	Weighted-Average Option Price Per Share	Total
Shares under option at December 31, 1994	$ 4.10 to $11.25	1,343	103	$ 7.64	$11,047
Granted	$ 8.00 to $ 8.00	50	-	8.00	400
Exercised	-	-	-	-	-
Expired	-	-	-	-	-
Shares under option at December 31, 1995	$ 4.10 to $11.25	1,393	103	7.66	11,447
Granted	$ 6.87 to $ 7.38	132	-	7.21	955
Exercised	-	-	-	-	-
Expired	$ 7.50 to $ 7.50	24	6	7.50	225
Shares under option at December 31, 1996	$ 4.10 to $11.25	1,501	97	7.62	12,177
Granted	$ 3.13 to $ 3.13	15	-	3.13	47
Exercised	-	-	-	-	-
Expired	$ 4.10 to $ 8.77	1,097	79	7.16	8,410
Shares under option at December 31, 1997	$ 3.13 to $11.25	419	18	$ 8.72	$ 3,814

(IN THOUSANDS, EXCEPT PER SHARE DATA)

Shares exercisable from	$ 6.88 to $ 8.50	209	-	$ 8.02	$ 1,673
Shares exercisable from	$11.00 to $11.25	117	18	11.17	1,508
Total shares exercisable at December 31, 1997	$ 6.88 to $11.25	326	18	$ 9.26	$ 3,181

The weighted average life of the shares exercisable from $6.88 to $8.50 is 4.9 years, and the weighted average life of the shares exercisable from $11.00 to $11.25 is 1.9 years.

(14) ACQUISITIONS

During 1995, the Company acquired the customer lists and equipment of ten unaffiliated fuel oil dealers. The aggregate consideration for these acquisitions, accounted for by the purchase method, was approximately $34,400.

During 1996, the Company acquired the customer lists and equipment of thirteen unaffiliated fuel oil dealers. The aggregate consideration for these acquisitions, accounted for by the purchase method, was approximately $28,500.

In June 1996, the Company sold its Springfield Massachusetts operations to an unaffiliated fuel oil dealer. The Company received proceeds of approximately $4,100 and realized a gain on this transaction of approximately $1,800.

During 1997, the Company acquired the customer lists and equipment of eleven unaffiliated fuel oil dealers. The aggregate consideration for these acquisitions, accounted for by the purchase method, was approximately $16,300.

In November 1997, the Company sold its Hartford Connecticut operation to an unaffiliated fuel oil dealer. The Company received proceeds of approximately $15,600 and recognized a gain on this transaction of approximately $11,400.

Sales and net income of the acquired companies are included in the consolidated statements of operations from the respective dates of acquisition.

Unaudited pro forma data giving effect to the purchased and disposed businesses, and to the acquisition of Star Gas Corporation, as described in Note 2, as if they had been acquired on January 1 of the year preceding the year of purchase and disposal, with adjustments, primarily for amortization of intangibles are as follows:

	1995	1996	1997
Net sales	$657,703	$607,240	$538,988
Loss before extraordinary item	$(20,889)	$(23,029)	$(22,397)
Net loss	$(22,325)	$(29,443)	$(22,397)
Preferred stock dividends	(3,263)	(2,389)	(4,644)
Net loss applicable to common stockholders (Numerator)	$(25,588)	$(31,832)	$(27,041)
Class A Common Stock	22,711	22,983	23,441
Class B Common Stock	15	12	11

(IN THOUSANDS, EXCEPT PER SHARE DATA)

Class C Common Stock	2,598	2,598	2,598
Weighted average number of shares outstanding (Denominator)	25,324	25,593	26,050
Basic and Diluted losses per common share before extraordinary item:			
Class A and C Common Stock	$ (0.95)	$ (0.99)	$ (1.04)
Extraordinary loss per common share:			
Class A and C Common Stock	$ (0.06)	$ (0.25)	$ -
Basic and Diluted losses per common share:			
Class A and C Common Stock	$ (1.01)	$ (1.24)	$ (1.04)

(15) LITIGATION

The Company is not party to any litigation which individually or in the aggregate could reasonably be expected to have a material adverse effect on the Company.

(16) DISCLOSURES ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash, Restricted Cash, Accounts Receivable, Notes Receivable and Other Current Assets, Working Capital Borrowings, Accounts Payable and Accrued Expenses

The carrying amount approximates fair value because of the short maturity of these instruments.

Long-Term Debt, Subordinated Notes Payable, Senior Notes Payable and Cumulative Redeemable Exchangeable Preferred Stock

The fair values of each of the Company's long-term financing instruments, including current maturities, are based on the amount of future cash flows associated with each instrument, discounted using the Company's current borrowing rate for similar instruments of comparable maturity.

The estimated fair value of the Company's financial instruments are summarized as follows:

	At December 31, 1996		At December 31, 1997	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt	$ 17,734	$ 17,333	$ 16,798	$ 15,853
Subordinated notes payable	241,450	251,940	210,400	197,883
Senior notes payable	35,200	36,965	64,150	64,343
Preferred stock	12,500	13,700	36,656	39,722

Limitations

(In thousands, except per share data)

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(17) SEGMENT INFORMATION

From December 8, 1994 to December 19, 1995 the operations, assets and liabilities of Star Gas Corporation ("Star Gas"), a wholly owned subsidiary, were included in the consolidated financial statements of the Company. Accordingly, during this period the Company's operations were classified into two business segments: Home Heating Oil and Propane. However, as a result of the Star Gas Master Limited Partnership transaction in December 1995 involving the conveyance of the Company's propane operations to Star Gas Propane, L.P., a minority owned entity, for the twelve months ended December 31, 1996 and 1997 the Company had no propane revenues or expenses.

	Year Ended December 31, 1995			Year Ended December 31, 1996			Year Ended December 31, 1997		
	Home Heating Oil	* Propane	Consolidated	Home Heating Oil	** Prop.	Consolidated	Home Heating Oil	*** Prop.	Consolidated
Net sales	$509,122	$100,385	$609,507	$608,161	$ -	$608,161	$548,141	$ -	$548,141
Gross profit	167,447	54,235	221,682	180,773	-	180,773	168,393	-	168,393
Operating expenses	125,859	39,070	164,929	143,069	-	143,069	140,023	-	140,023
Depreciation & amortization	30,863	9,587	40,450	30,818	-	30,818	30,311	-	30,311
Operating income (loss)	10,725	5,578	16,303	6,886	-	6,886	(1,941)	-	(1,941)
Assets	357,241	-	357,241	275,025	-	275,025	247,846	-	247,846
Capital expenditures	$ 3,946	$ 7,228	$ 11,174	$ 6,874	$ -	$ 6,874	$ 6,980	$ -	$ 6,980

* In 1995 the Propane segment had equity income, which is presented in the Statement of Operations as non-operating income, of approximately $0.7 million representing the Company's share of income of Star Gas Partners, L.P.

** In 1996 the Propane segment had equity income, which is presented in the Statement of Operations as non-operating income, of approximately $2.3 million representing the Company's share of income of Star Gas Partners, L.P.

*** In 1997 the Propane segment had an equity loss, which is presented in the Statement of Operations as non-operating loss, of approximately $0.2 million representing the Company's share of loss of Star Gas Partners, L.P.

(18) EARNINGS PER SHARE

	DECEMBER 31,		
	1995	1996	1997
Basic Earnings Per Share:			
Net loss	$(23,479)	$(28,315)	$(22,899)
Less: Preferred stock dividends	(3,263)	(2,389)	(4,644)
Loss available to common stockholders			

(IN THOUSANDS, EXCEPT PER SHARE DATA)

(Numerator)	$(26,742)	$(30,704)	$(27,543)
Class A Common Stock	22,711	22,983	23,441
Class B Common Stock	15	12	11
Class C Common Stock	2,598	2,598	2,598
Weighted average number of shares outstanding (Denominator)	25,324	25,593	26,050
Basic losses per share	$ (1.06)	$ (1.20)	$ (1.06)
Diluted Earnings Per Share:			
Effect of dilutive securities	$ -	$ -	$ -
Loss available to common stockholders (Numerator)	$(26,742)	$(30,704)	$(27,543)
Effect of dilutive securities	-	-	-
Weighted average number of shares outstanding (Denominator)	25,324	25,593	26,050
Diluted losses per share	$ (1.06)	$ (1.20)	$ (1.06)

Certain potentially dilutive securities issued (i.e. options) are not considered in the above calculation due to the fact that they would be anti-dilutive.

(19) SELECTED QUARTERLY FINANCIAL DATA - (UNAUDITED)

The seasonal nature of the Company's business results in the sale by the Company of approximately 50% of its volume of home heating oil in the first quarter and 30% of its volume of home heating oil in the fourth quarter of each year. The Company generally realizes net income in both of these quarters and net losses during the warmer quarters ending June and September.

	THREE MONTHS ENDED				
	3/31/96	6/30/96	9/30/96	12/31/96	TOTAL
Net sales	$279,655	$ 91,345	$ 51,060	$ 186,101	$608,161
Gross profit	$100,838	$ 21,952	$ 6,206	$ 51,777	$180,773
Income (loss) before taxes, equity interest and extraordinary item	$ 42,490	$(24,259)	$(38,777)	$ (3,138)	$(23,684)
Net income (loss)	$ 39,041	$(26,152)	$(40,593)	$ (611)	$(28,315)
Preferred dividends	(1,194)	-	(1,195)	-	(2,389)
Net income (loss) available to common stockholders	$ 37,847	$(26,152)	$(41,788)	$ (611)	$(30,704)
Basic and Diluted earnings (losses) per common share before extraordinary item: Class A and C Common Stock	$ 1.74	$ (1.02)	$ (1.63)	$ (0.02)	$ (0.95)
Extraordinary (loss) per common share: Class A and C Common Stock	(0.25)	-	-	-	(0.25)

Basic and Diluted earnings (losses) per common share:					
Class A and C Common Stock	$ 1.49	$ (1.02)	$ (1.63)	$ (0.02)	$ (1.20)
Weighted average number of common shares outstanding:					
Class A Common Stock	22,862	22,933	23,021	23,116	22,983
Class B Common Stock	13	13	12	11	12
Class C Common Stock	2,598	2,598	2,598	2,598	2,598

	THREE MONTHS ENDED				
	3/31/97	6/30/97	9/30/97	12/31/97	TOTAL
Net sales	$248,095	$ 87,972	$ 50,788	$ 161,286	$548,141
Gross profit	$ 84,590	$ 23,414	$ 7,582	$ 52,807	$168,393
Income (loss) before taxes, equity interest and extraordinary item	$ 31,285	$(25,550)	$(37,959)	$ 10,060	$(22,164)
Net income (loss)	$ 33,388	$(27,454)	$(40,316)	$ 11,483	$(22,899)
Preferred dividends	(896)	(921)	(1,861)	(966)	(4,644)
Net income (loss) available to common stockholders	$ 32,492	$(28,375)	$(42,177)	$ 10,517	$(27,543)
Basic and Diluted earnings (losses) per common share before extraordinary item:					
Class A and C Common Stock	$ 1.26	$ (1.09)	$ (1.61)	$ 0.40	$ (1.06)
Extraordinary (loss) per common share:					
Class A and C Common Stock	-	-	-	-	-
Basic and Diluted earnings (losses) per common share:					
Class A and C Common Stock	$ 1.26	$ (1.09)	$ (1.61)	$ 0.40	$ (1.06)
Weighted average number of common shares outstanding:					
Class A Common Stock	23,150	23,326	23,538	23,751	23,441
Class B Common Stock	11	11	11	11	11
Class C Common Stock	2,598	2,598	2,598	2,598	2,598

SCHEDULE II

PETROLEUM HEAT AND POWER CO., INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED DECEMBER 31, 1995, 1996 AND 1997

Year	Description	Balance at Beginning of Year	Additions: Charged to Costs and Expenses	Additions: Charge to Other Account	Other Changes Add / (Deduct)	Balance at End of Year
1995	Accumulated amortization:					
	Customer lists	$209,113	$20,527		$ (4,307) (3)	$225,333
	Deferred charges	34,003	6,142		(1,022) (3)	39,123
		$243,116	$26,669		$ (5,329)	$264,456
					$ (3,323) (2)	
					(250) (3)	

	Allowance for doubtful accounts	$ 1,769	$ 1,856	$ 917	(1)	$ (3,573)		$ 969
1996	Accumulated amortization:							
	Customer lists	$225,333	$18,611			$ (4,104)	(4)	$239,840
	Deferred charges	39,123	4,760			(237)	(4)	43,646
		$264,456	$23,371			$ (4,341)		$283,486
	Allowance for doubtful accounts	$ 969	$ 1,882	$1,099	(1)	$ (2,862)	(2)	$ 1,088
1997	Accumulated amortization:							
	Customer lists	$239,840	$17,903			$(18,292)	(5)	$239,451
	Deferred charges	43,646	4,639			(1,886)	(5)	46,399
		$283,486	$22,542			$(20,178)		$285,850
	Allowance for doubtful accounts	$ 1,088	$ 1,853	$1,195	(1)	$ (3,156)	(2)	$ 980

(1) Recoveries

(2) Bad debts written off

(3) Valuation and qualifying accounts conveyed to Star Gas Partners, L.P. and the disposition of the New Hampshire branch location

(4) Valuation and qualifying accounts conveyed through the disposition of the Springfield Massachusetts branch location

(5) Valuation and qualifying accounts conveyed through the disposition of the Hartford Connecticut branch location

PETROLEUM HEAT AND POWER CO., INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data) ASSETS	(UNAUDITED) SEPTEMBER 30, 1998	DECEMBER 31, 1997
Current assets:		
Cash	$ 13,767	$ 2,390
Restricted cash	4,900	-
Accounts receivable (net of allowance of $1,945 and $980)	38,163	78,987
Inventories	13,997	16,285
Prepaid expenses	10,889	6,203
Notes receivable and other current assets	996	1,259
Total current assets	82,712	105,124
Property, plant and equipment - net	28,799	30,615
Intangible assets (net of accumulated amortization of $302,095 and $285,850)		
Customer lists	56,298	69,265
Deferred charges	22,860	24,924
	79,158	94,189
Investment in and advances to the Star		

Gas Partnership	20,077	27,499
Deferred gain on Star Gas Transaction	(19,964)	(19,964)
	113	7,535
Restricted cash	6,900	9,350
Other assets	996	1,033
	$ 198,678	$ 247,846

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)

Current liabilities:		
Working capital borrowings	$ -	$ 3,000
Current debt	8,021	2,391
Current maturities of redeemable and exchangeable preferred stock	4,167	4,167
Accounts payable	6,320	14,759
Customer credit balances	28,803	20,767
Unearned service contract revenue	13,599	15,321
Accrued expenses and other liabilities	29,281	32,283
Total current liabilities	90,191	92,688
Supplemental benefits and other long-term liabilities	5,003	5,043
Pension plan obligation	5,683	5,702
Notes payable and other long-term debt	8,514	16,507
Senior notes payable	62,050	63,100
Subordinated notes payable	208,300	209,350
Redeemable and exchangeable preferred stock	28,555	32,489
Common stock redeemable at option of stockholder (83 Class A and 21 Class C shares)	656	656
Note receivable from stockholder	(656)	(656)
Stockholders' equity (deficiency):		
Preferred stock-no par value; 1,000 shares authorized, 787 and 0 shares issued and outstanding	-	-
Class A common stock-par value $.10 per share; 60,000 shares authorized, 23,882 and 23,606 shares issued and outstanding	2,389	2,361
Class B common stock-par value $.10 per share; 6,500 shares authorized, 11 shares issued and outstanding	1	1
Class C common stock-par value $.10 per share; 5,000 shares authorized, 2,577 shares issued and outstanding	258	258
Additional paid-in capital	83,046	81,358
Deficit	(290,666)	(256,365)
Minimum pension liability adjustment	(4,646)	(4,646)
Total stockholders' equity (deficiency)	(209,618)	(177,033)
	$ 198,678	$ 247,846

See accompanying notes to condensed consolidated financial statements.

PETROLEUM HEAT AND POWER CO., INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(In thousands, except per share data)	THREE MONTHS ENDED SEPTEMBER 30, 1998	THREE MONTHS ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1998	NINE MONTHS ENDED SEPTEMBER 30, 1997
Net sales	$ 42,113	$ 50,788	$291,479	$386,855
Cost of sales	34,188	43,206	191,508	271,269
GROSS PROFIT	7,925	7,582	99,971	115,586
Selling, general and administrative expenses	21,162	25,069	64,348	75,103
Direct delivery expense	2,928	3,421	17,410	21,189
Restructuring charges	-	-	535	1,300
Corporate identity expenses	-	1,078	152	3,188
Star Gas transaction expenses	1,029	-	1,029	-
Pension curtailment	-	654	-	654
Amortization of customer lists	4,140	4,488	12,966	13,419
Depreciation of plant and equipment	1,767	1,801	5,195	5,352
Amortization of deferred charges	1,041	1,165	3,279	3,469
Provision for supplemental benefits	89	141	268	424
OPERATING LOSS	(24,231)	(30,235)	(5,211)	(8,512)
Other income (expense):				
Interest expense	(8,320)	(8,432)	(24,805)	(25,581)
Interest income	680	681	1,893	1,804
Other	11	27	127	65
Loss before income taxes and equity interest	(31,860)	(37,959)	(27,996)	(32,224)
Income taxes	-	-	325	350
Loss before equity interest	(31,860)	(37,959)	(28,321)	(32,574)
Share of loss of Star Gas Partnership	(2,355)	(2,357)	(1,890)	(1,808)
NET (LOSS)	$(34,215)	$(40,316)	$(30,211)	$(34,382)
Preferred Stock dividends	(1,562)	(1,861)	(4,090)	(3,678)
NET (LOSS) APPLICABLE TO COMMON STOCK	$(35,777)	$(42,177)	$(34,301)	$(38,060)
Basic earnings (losses) per Class A and Class C Common Stock	$(1.35)	$(1.61)	$(1.29)	$(1.47)
Diluted earnings (losses) per Class A and Class C Common Stock	$(1.35)	$(1.61)	$(1.29)	$(1.47)

See accompanying notes to condensed consolidated financial statements.

PETROLEUM HEAT AND POWER CO., INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)
(UNAUDITED)

NINE MONTHS ENDED SEPTEMBER 30, 1998

(IN THOUSANDS)

		COMMON STOCK									
		CLASS A		CLASS B		CLASS C					
	PREFERRED STOCK	# OF SHARES	AMT.	# OF SHARES	AMT.	# OF SHARES	AMT.	ADDITIONAL PAID-IN CAPITAL	DEFICIT	MINIMUM PENSION LIABILITY ADJ.	TOTAL
Balance at 12/31/97	$ -	23,606	$2,361	11	$1	2,577	$258	$81,358	$(256,365)	$(4,646)	$(177,033)
Net loss									(30,211)		(30,211)
Cash Dividends declared and paid									(4,090)		(4,090)
Class A Common Stock issued under the Dividend Reinvestment Plan		271	27					583			610
Junior convertible preferred stock issued in connection with exchange offer	-							1,216			1,216
Other		5	1					(111)			(110)
Balance at 9/30/98	$ -	23,882	$2,389	11	$1	2,577	$258	$83,046	$(290,666)	$(4,646)	$(209,618)

See accompanying notes to condensed consolidated financial statements.