

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 1-11071

UGI CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Pennsylvania
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

23-2668356
(I.R.S. EMPLOYER
IDENTIFICATION NO.)

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

(610) 337-1000
(REGISTRANT'S 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 Stock, without par value	New York Stock Exchange, Inc. Philadelphia Stock Exchange, Inc.

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

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS) AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS. YES 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 UGI Corporation Common Stock held by nonaffiliates of the registrant on December 1, 1998 was \$803,660,293.

At December 1, 1998 there were 32,861,834 shares of UGI Corporation Common Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the Annual Report to Shareholders for the year ended September 30, 1998 are incorporated by reference into Parts I and II of this Form 10-K. Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on February 23, 1999 are incorporated by reference into Part III of this Form 10-K.

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PART I: BUSINESS

ITEMS 1 AND 2. BUSINESS AND PROPERTIES

UGI Corporation is a holding company that operates propane distribution, gas and electric utility and energy marketing businesses through subsidiaries.

Our majority-owned subsidiary, AmeriGas Partners, L.P., a Delaware limited partnership ("AmeriGas Partners" or the "Partnership"), conducts the nation's largest retail propane distribution business through its 98.99% owned subsidiary AmeriGas Propane, L.P. (the "Operating Partnership"). We have been in the retail propane distribution business for almost 40 years, operating through various subsidiaries. The Partnership's sole general partner is our subsidiary, AmeriGas Propane, Inc. ("AmeriGas Propane" or the "General Partner"). The common units of AmeriGas Partners, which represent limited partner interests, are traded on the New York Stock Exchange under the symbol "APU." We have a 58.6% combined ownership interest in the Partnership and the Operating Partnership. The remaining interest is publicly held.

Our subsidiary UGI Utilities, Inc. ("Utilities") owns and operates a natural gas distribution utility and an electric utility in eastern Pennsylvania. Utilities is the successor to a business founded in 1882. Utilities supplies 258,000 natural gas customers and 61,000 electric customers.

Our subsidiary UGI Enterprises, Inc. ("Enterprises") conducts a retail gas and electric marketing business, and is currently engaged in two international energy-related joint ventures through subsidiaries. Black Sea LPG, L.P. is developing an energy import and distribution business in Romania. ChinaGas Partners, L.P. is developing an integrated propane import, storage and distribution business in China. We expect Enterprises to continue to evaluate and develop new international and domestic business opportunities for us.

UGI was incorporated in Pennsylvania in 1991 as part of the restructuring of Utilities into a holding company system. UGI is not subject to regulation by the Pennsylvania Public Utility Commission ("PUC"). It is also exempt from registration as a holding company and not otherwise subject to the Public Utility Holding Company Act of 1935, except for Section 9(a)(2), which regulates the acquisition of voting securities of an electric or gas utility company. Our executive offices are located at 460 North Gulph Road, King of Prussia, Pennsylvania 19406, and our telephone number is (610) 337-1000. In this report, the terms "Company" and "UGI," as well as the terms "our," "we," and "its," are sometimes used as abbreviated references to UGI Corporation or, collectively, UGI Corporation and its consolidated subsidiaries. Similarly, the terms "AmeriGas Partners" and the "Partnership" are sometimes used as abbreviated references to AmeriGas Partners, L.P. or, collectively, AmeriGas Partners, L.P. and its subsidiaries, including the Operating Partnership.

PROPANE BUSINESS

Our domestic propane distribution business is conducted through AmeriGas Partners. The Partnership is the largest retail propane distributor in the United States, based on fiscal year 1998 retail volume of 785 million gallons. The Partnership operates from approximately 600 district locations in 46 states. AmeriGas Propane manages the Partnership. Although our consolidated financial statements include 100% of the Partnership's revenues and assets, our net income reflects only our 58.6% share in the income or loss of the Partnership, due to the publicly-owned limited partner interest.

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, Dynegy 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 Graph]

		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 2,000 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."

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 Notes 1 and 11 to the Company'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.

UTILITY OPERATIONS

Our utility business is conducted by UGI Utilities, Inc. a wholly owned subsidiary. Utilities operates its business through two divisions, the gas division ("Gas Utility") and the electric division ("Electric Utility"). The business conducted by each of these divisions is described below.

GAS UTILITY

SERVICE AREA; REVENUE ANALYSIS

Gas Utility distributes natural gas to approximately 258,000 customers in portions of 14 eastern and southeastern Pennsylvania counties through its distribution system of approximately 4,400 miles of gas mains. The service area consists of approximately 3,000 square miles and includes the cities of Allentown, Bethlehem, Easton, Harrisburg, Hazleton, Lancaster, Lebanon and Reading, Pennsylvania. Located in Gas Utility's service area are major production centers for basic industries such as specialty metals, aluminum and glass. For the fiscal years ended September 30, 1998, 1997 and 1996, revenues of Gas Utility accounted for approximately 24%, 24%, and 25%, respectively, of our total consolidated revenues.

System throughput (the total volume of gas sold to or transported for customers within Gas Utility's distribution system) for the 1998 fiscal year was approximately 74.9 billion cubic feet ("bcf"). System sales of gas accounted for approximately 42% of system throughput, while gas transported for commercial and industrial customers (who buy their gas from others) accounted for approximately 58% of system throughput. Based on industry data for 1997, residential customers account for approximately 38% of total system throughput by local gas distribution companies in the United States. By contrast, for the 1998 fiscal year, Gas Utility's residential customers represented 22% of its total system throughput.

SOURCES OF SUPPLY AND PIPELINE CAPACITY

Gas Utility meets its service requirements by utilizing a diverse mix of natural gas purchase contracts with producers and marketers, storage and transportation services from pipeline companies, and its own propane-air and liquefied natural gas peak-shaving facilities. Purchases of natural gas in the spot market are also made to reduce costs and manage storage inventory levels. These arrangements enable Gas Utility to purchase gas from Gulf Coast, Mid-Continent, Appalachian and Canadian sources. For the transportation and storage function, Utilities has agreements with a number of pipeline companies, including Texas Eastern Transmission Corporation, Columbia Gas Transmission Corporation, ANR Pipeline Company, Columbia Gulf Transmission Company, CNG Transmission Corporation, National Fuel Gas Supply Corporation, Transcontinental Gas Pipeline Corporation, Trunkline Gas Company, Texas Gas Transmission Corporation, Panhandle Eastern Pipe Line Company and Tennessee Gas Pipeline Co.

GAS SUPPLY CONTRACTS

During the 1998 fiscal year, Gas Utility purchased approximately 30.8 bcf of natural gas and sold approximately 31.3 bcf to customers. Approximately 25 bcf or 81% of the volumes purchased were supplied under agreements with six major suppliers of natural gas. The remaining 5.8 bcf or 19% of gas purchased was supplied by producers and marketers under other arrangements, including multi-month agreements at spot prices. Certain gas supply contracts require minimum gas purchases, however, each of these agreements either terminates in fiscal year 1999, or includes provisions that entitle Utilities to terminate the agreement if it is not market responsive.

STORAGE AND PEAK SHAVING

Gas Utility contracts for 9.5 bcf of seasonal storage with several interstate pipelines. Gas is injected in storage during the summer and delivered during the winter at combined peak day capacities of approximately 0.16 bcf. In Harrisburg, Reading and Bethlehem, Pennsylvania, Gas Utility operates peak-shaving facilities capable of producing 0.06 bcf of gas per day from propane-air and liquefied natural gas facilities. These facilities are used to meet winter peak service requirements.

SEASONAL VARIATION

Because many of its customers use gas for heating purposes, Gas Utility's sales are seasonal, with approximately 57% of fiscal year 1998 throughput and approximately 76% of earnings before interest expense, income taxes, depreciation and amortization occurring during the winter season from November through March.

COMPETITION

Natural gas is a fuel that competes with electricity and oil, and to a lesser extent, with propane and coal. Competition among these fuels is primarily a function of their comparative price and the relative cost and efficiency of fuel utilization equipment. Electric utilities in Gas Utility's service area are aggressively seeking new load, primarily in the new construction market. Competition with fuel oil dealers is focused on industrial customers. Gas Utility responds to this competition with marketing efforts designed to retain and grow its customer base.

In substantially all of its service territory, Gas Utility is the only regulated gas distribution utility having the right, granted by the PUC or by law, to provide transportation services. While unregulated gas marketers have been selling gas to commercial and industrial customers in Gas Utility's service territory for over 13 years, Gas Utility provides transportation services for those sales. Pennsylvania is considering legislation which would require a customer choice option for retail purchasers of natural gas. See "Utility Regulation and Rates."

Customers representing approximately 41% of Gas Utility's transportation system throughput (22% of transportation revenues) have the ability to switch to an alternate fuel at any

time and, therefore, are served under flexible, interruptible rates which are competitively priced with respect to their alternate fuel. Gas Utility's margins from these customers, therefore, are affected by the difference, or "spread," between the customers' delivered cost of gas and the customers' delivered alternate fuel cost. In addition, other customers representing 33% of transportation system throughput (19% of transportation revenues) have locations which afford them the option, although none has exercised it, of seeking transportation service directly from interstate pipelines, thereby bypassing Gas Utility. The majority of customers in the latter group are served under transportation contracts having three- to ten-year terms. Included in these two groups are the ten Utilities' customers with the highest volume of system throughput. Three of the top five customers have entered into long-term agreements with Utilities. No single customer represents, or is anticipated to represent, more than 1% of the total revenues of Gas Utility.

OUTLOOK FOR GAS SERVICE AND SUPPLY

Gas Utility anticipates having adequate pipeline capacity and sources of supply available to it to meet the full requirements of all firm customers on its system through fiscal year 1999. Supply mix is diversified, market priced, and delivered pursuant to a number of long- and short-term firm transportation and storage arrangements.

During the 1998 fiscal year, Gas Utility supplied transportation service to three major cogeneration installations. Gas Utility continues to pursue opportunities to supply natural gas to electric generation projects located in its service territory. Gas Utility also continues to seek new residential, commercial and industrial customers for both firm and interruptible service. In the residential market sector, Gas Utility connected 6,955 additional residential heating customers during the 1998 fiscal year, a modest increase from the previous year. Of those new customers, new home construction accounted for a record 4,905 heating customers, an increase of approximately 14% from the prior year. Customers converting from other energy sources, primarily oil, and existing non-heating gas customers who have added gas heating systems to replace other energy sources, accounted for the balance of the additions. The total number of new commercial and industrial customers was 1,246, up from 1,068 in fiscal year 1997.

Utilities continues to monitor and participate extensively in third-party proceedings before the Federal Energy Regulatory Commission ("FERC") affecting the rates and the terms and conditions under which Gas Utility transports and stores natural gas. Among these proceedings are those arising out of certain FERC orders and/or pipeline filings which relate to (i) the relative pricing of pipeline services in a competitive energy marketplace; (ii) the flexibility of the terms and conditions of pipeline service contracts; and (iii) pipelines' requests to increase their base rates, or change the terms and conditions of their storage and transportation services.

Gas Utility's objective in negotiations with interstate pipeline and natural gas suppliers, and in litigation before regulatory agencies, is to assure availability of supply, transportation and storage alternatives to serve market requirements at the lowest cost possible, taking into account the need for security of supply. Consistent with that objective, Gas Utility negotiates the terms of firm transportation capacity on all pipelines serving Gas Utility, arranges for appropriate storage and peak-shaving resources, negotiates with producers for competitively priced gas purchases and

aggressively participates in regulatory proceedings related to transportation rights, costs of service and gas costs.

ELECTRIC UTILITY

ELECTRICITY GENERATION CUSTOMER CHOICE AND COMPETITION ACT

On January 1, 1997, Pennsylvania's Electricity Generation Customer Choice and Competition Act (Customer Choice Act) became effective. The Customer Choice Act permits all Pennsylvania retail electric customers to choose their electric generation supplier over a three-year phase-in period commencing January 1, 1999. The Customer Choice Act required all electric utilities to file restructuring plans with the PUC which, among other things, included unbundled prices for electric generation, transmission and distribution and a competitive transition charge (CTC) for the recovery of "stranded costs" which would be paid by all customers receiving distribution service. Stranded costs generally are electric generation-related costs that traditionally would be recoverable in a regulated environment but may not be recoverable in a competitive electric generation market. Under the Customer Choice Act, Electric Utility's rates for transmission and distribution services provided through June 30, 2001 are capped at levels in effect on January 1, 1997. In addition, Electric Utility generally may not increase prices for electric generation as long as stranded costs are being recovered through the CTC. In accordance with the restructuring proceedings discussed below, Utilities expects to collect a CTC from all distribution customers from January 1, 1999 until December 31, 2002. Electric Utility will continue to be the only regulated electric utility having the right, granted by the PUC or by law, to distribute electric energy in its service territory.

On June 19, 1998, the PUC entered its Opinion and Order (the "Restructuring Order") in Electric Utility's restructuring proceeding under the Customer Choice Act. The Restructuring Order approved a settlement agreement among all parties to Utilities' proceeding except Pennsylvania Power & Light Company ("PP&L"). Under the terms of the Restructuring Order, commencing January 1, 1999 Electric Utility is authorized to recover from its customers approximately \$32.5 million in stranded costs (on a full revenue requirements basis, which includes all income and gross receipts taxes) over a four-year period through a CTC, together with carrying charges on unrecovered balances of 7.94%. Electric Utility's recoverable stranded costs include approximately \$8.7 million for the termination of a 1993 power purchase agreement with Foster Wheeler Penn Resources, Inc., an independent power producer. The Restructuring Order also provides that Electric Utility may extend the CTC period to recover additional amounts it may be ordered to pay as a result of a contract dispute with PP&L. See "Sources of Supply" below. All of Electric Utility's customers will be permitted to select an alternative electric generation supplier as of January 1, 1999. Customers choosing another supplier will on average receive a generation "shopping credit" developed from system-wide generation rates of 3.67 cents per kilowatt hour ("kwh") in calendar years 1999 and 2000, and 4.3 cents per kwh in calendar years 2001 and 2002. As noted above, Electric Utility's power generation rates are capped until December 31, 2002. Because the sources and costs of Electric Utility's electric power vary from period to period and because Electric Utility no longer defers the difference

between its actual power costs and amounts included in its rates, Electric Utility's quarterly results may become more volatile in the future. Results will also be affected by the number of customers who choose to purchase their power from other suppliers during any given time period. Utilities has applied to the PUC for approval to transfer its electric generation assets to a non-regulated subsidiary as provided for in the settlement agreement approved by the Restructuring Order. Utilities' management believes that the PUC will approve this request.

SERVICE AREA; REVENUE ANALYSIS

Electric Utility supplies electric service to approximately 61,000 customers in portions of Luzerne and Wyoming Counties in northeastern Pennsylvania through a system consisting of approximately 2,100 miles of transmission and distribution lines and 14 transmission substations. For the 1998 fiscal year, about 51% of sales volume came from residential customers, 34% from commercial customers and 13% from industrial customers. The remaining 2% represents electricity transported for customers who purchased their power from others during the pilot program phase of the Customer Choice Act. For the 1998, 1997 and 1996 fiscal years, revenues of Electric Utility accounted for approximately 5%, 4%, and 4%, respectively, of our total consolidated revenues.

SOURCES OF SUPPLY

Electric Utility distributes both electricity that it generates or purchases from others and, since November 1, 1997, electricity that customers purchase from other suppliers. Utilities owns and operates Hunlock generating station located near Kingston, Pennsylvania ("Hunlock Station"), and has a 1.11% ownership interest in the Conemaugh generating station located near Johnstown, Pennsylvania ("Conemaugh Station"), which is operated by another utility. These two coal-fired stations can generate up to 69 megawatts of electric power for Electric Utility and provided approximately 46% of its energy requirements during the 1998 fiscal year.

Utilities has short-term, fixed-price, power supply agreements to purchase the total output, 32 megawatts of electric power, from the Montgomery County (Maryland) Resource Recovery Facility (the "Montgomery Facility"). The Montgomery Facility output is expected to replace higher cost power under the PP&L contract through calendar year 1999.

Utilities has a long-term power supply agreement with PP&L. Under this agreement, PP&L supplies all the electric power required by Electric Utility above that provided from certain other sources, including Hunlock Station and the Montgomery Facility. The cost of electricity supplied by PP&L is based on PP&L's actual system costs. As a result of the availability and projected cost of alternative supplies, Utilities provided PP&L with notice of its intent to stop purchasing power under their power supply agreement as of March 2001. In addition, if certain conditions are met, the power supply agreement may terminate at an earlier date.

There currently is a dispute between Utilities and PP&L over the effect of customer choice on Utilities' obligations under the agreement. Utilities filed an action in the Court of Common Pleas of Luzerne County, Pennsylvania seeking a declaration of the rights and responsibilities of

the parties to the agreement, including a declaration that Utilities is obligated to purchase only the amount of energy required to serve its customers who do not elect to purchase energy from alternate suppliers. On August 31, 1998 the Court granted Utilities' motion for partial judgment on the pleadings, holding that Utilities' purchase obligation does not include energy for customers who have chosen alternative suppliers. Utilities expects PP&L to appeal this decision at the conclusion of the case. In addition, PP&L disputes Utilities' right to displace PP&L power with power purchased from the Montgomery Facility. The Restructuring Order provides that Utilities may extend the CTC period to recover any additional stranded costs it may incur if it is ultimately determined that Utilities must pay PP&L for power that is no longer needed to serve customers.

In a regulated utility environment, Hunlock Station could be expected to operate until the end of its useful life in 2004. As a result of electric deregulation, however, Hunlock Station may cease operations earlier, depending on a number of factors, including customer load, contract purchase obligations, the availability and cost of replacement power and the ability to market Hunlock Station's output. Utilities estimates that the cost of electricity supplied by Hunlock Station is higher than projected market rates, but lower than the cost of electricity purchased under the current PP&L contract. Utilities' decisions regarding the operation of Hunlock Station will be highly dependent on the maturation of the emerging deregulated energy market in Pennsylvania.

ENVIRONMENTAL FACTORS

The operation of Hunlock Station complies with the air quality standards of the Pennsylvania Department of Environmental Resources ("DER") with respect to stack emissions. Under the Federal Water Pollution Control Act, Utilities has a permit from the DER to discharge water from Hunlock Station into the North Branch of the Susquehanna River.

The Federal Clean Air Act Amendments of 1990 (the "Clean Air Act Amendments") impose emissions limitations for certain compounds, including sulfur dioxide and nitrous oxides. Both the Conemaugh Station and the Hunlock Station are in material compliance with these emission standards.

More stringent regulation of nitrous oxide emissions at both Hunlock and Conemaugh Stations may be required due to the actions of the Northeast Ozone Transport Commission. The Commission was created by the Clean Air Act Amendments to provide a plan to reduce ground level ozone in the Northeast to a level acceptable to the U.S. Environmental Protection Agency. Future actions of the Commission may cause the DER to modify its regulations for nitrous oxides and thereby affect the compliance plans of Hunlock and Conemaugh Stations.

SEASONALITY

Sales and distribution of electricity for residential heating purposes accounted for approximately 21% of the total sales of Electric Utility during the 1998 fiscal year. Electricity competes with natural gas, oil, propane and other heating fuels in this use. Approximately 53% of volume occurred during November through April, the six coldest months of the 1998 fiscal year,

demonstrating modest seasonality favoring winter due to the use of electricity for residential heating purposes.

UTILITIES' PROPERTIES

Utilities' Mortgage and Deed of Trust constitutes a first lien on substantially all real and personal property of Utilities.

UTILITY REGULATION AND RATES

REGULATORY ENVIRONMENT

Since December 1982, Gas Utility has provided transportation service for commercial and industrial customers who purchase their gas from others. As previously reported, this unbundled service accounted for approximately 58% of Gas Utility's system throughput in fiscal year 1998. Certain states, including Pennsylvania, are considering whether transportation service options should be extended to residential and small commercial customers. On March 27, 1997, proposed customer choice legislation was introduced in the Pennsylvania General Assembly that would, among other things, extend the availability of gas transportation service to residential and small commercial customers of local gas distribution companies. It would permit all customers of natural gas distribution utilities to transport their natural gas supplies through the distribution systems of Pennsylvania gas utilities by April 1, 1999 and would also require Pennsylvania gas utilities to stop selling natural gas. Legislative committees have conducted public hearings on the proposed legislation and Utilities has provided testimony on such issues as the need for standards to assure reliability of future gas supplies and the recovery of costs associated with existing gas supply assets. At the request of the Governor of Pennsylvania, in December 1997 a collaborative group of industry stakeholders was convened to attempt to further develop the proposed legislation. To date, this group has failed to reach a consensus. We expect the collaborative process to continue, and we will participate as appropriate. Independently, Utilities is considering a number of options for addressing the provision of unbundled transportation services to residential and small commercial customers.

FERC ORDERS 888 AND 889

In April 1996, FERC issued Orders No. 888 and 889 which established rules for the use of electric transmission facilities for wholesale transactions. FERC has also asserted jurisdiction over the transmission component of electric retail choice transactions. In compliance with these orders, the PJM Interconnection, LLC ("PJM"), of which Utilities is a member, has filed an open access transmission tariff with the FERC establishing transmission rates and procedures for transmission within the PJM control area. Under the PJM tariff and associated agreements, Electric Utility is entitled to receive certain revenues when its transmission facilities are used by third parties.

Utilities' gas and electric utility operations are subject to regulation by the PUC as to rates, terms and conditions of service, accounting matters, issuance of securities, contracts and other arrangements with affiliated entities, and various other matters.

PURCHASED GAS COST RATES

Gas Utility's gas service tariff contains Purchased Gas Cost ("PGC") rates which provide for annual increases or decreases in the rate per thousand cubic feet ("mcf") which Gas Utility charges for natural gas sold by it, to reflect Utilities' projected cost of purchased gas. In accordance with regulations adopted by the PUC on June 14, 1995, PGC rates may also be adjusted quarterly to reflect purchased gas costs. Each proposed PGC rate is required to be filed with the PUC six months prior to its effective date. During this period the PUC holds hearings to determine whether the proposed rate reflects a least-cost fuel procurement policy consistent with the obligation to provide safe, adequate and reliable service. After completion of these hearings, the PUC issues an order permitting the collection of gas costs at levels which meet that standard. The PGC mechanism also provides for an annual reconciliation. Utilities has two PGC rates. PGC (1) is applicable to small, firm, core market customers consisting of the residential and small commercial and industrial classes; PGC (2) is applicable to firm, contractual, high-load factor customers served on three separate rates. In addition, residential customers maintaining a high load may qualify for the PGC(2) rate. In accordance with the schedule established by law and PUC regulations, Gas Utility will file a new PGC tariff on June 1, 1999, to be effective December 1, 1999. When filed, the proposed tariff will reflect estimated PGC over-collections and under-collections through November 30, 1999.

ENERGY COST RATES

In accordance with provisions of the Customer Choice Act, the PUC approved Electric Utility's application to roll its energy cost rate ("ECR") into its base rates effective as of May 2, 1997, at a combined level not to exceed the rate cap established as of January 1, 1997. Before January 1, 1997, the ECR permitted Electric Utility to adjust customers' monthly charges to reflect annual changes in the cost of purchased power, fuel, interchange power and the cost of transmitting power purchased from external sources. Electric Utility may no longer adjust customer charges to reflect changes in such costs.

GAS RATE CASE

On January 27, 1995, Gas Utility filed with the PUC for a \$41.3 million increase in base rates. The PUC approved a \$19.5 million settlement of this proceeding, effective August 31, 1995.

ELECTRIC RATE CASE

On January 26, 1996, Electric Utility filed with the PUC for a \$6.2 million increase in its base rates. On July 18, 1996, the PUC approved a settlement of this proceeding authorizing a \$3.1 million increase in annual revenues. This increase in base rates became effective on July 19, 1996.

STATE TAX SURCHARGE CLAUSES

Utilities' gas and electric service tariffs contain state tax surcharge clauses. The surcharges are recomputed whenever any of the tax rates included in their calculation are changed. These clauses protect Utilities from the effect of increases in most of the Pennsylvania taxes to which it is subject, however, any increase in Electric Utility's state tax surcharge is generally subject to the rate caps discussed above.

UTILITY FRANCHISES

Utilities holds certificates of public convenience issued by the PUC and certain "grandfather rights" predating the adoption of the Pennsylvania Public Utility Code and its predecessor statutes which it believes are adequate to authorize it to carry on its business in substantially all the territory to which it now renders gas and electric service. Under applicable Pennsylvania law, Utilities also has certain rights of eminent domain as well as the right to maintain its facilities in streets and highways in its territories.

OTHER GOVERNMENT REGULATION

In addition to regulation by the PUC, the gas and electric utility operations of Utilities are subject to various federal, state and local laws governing environmental matters, occupational health and safety, pipeline safety and other matters. Certain of Utilities' activities involving the interstate movement of natural gas, the transmission of electricity, transactions with non-utility generators of electricity and other matters, are also subject to the jurisdiction of FERC.

Utilities is subject to the requirements of the federal Resource Conservation and Recovery Act, CERCLA and comparable state statutes with respect to the release of hazardous substances on property owned or operated by Utilities. See ITEM 3. "LEGAL PROCEEDINGS-Environmental Matters-Manufactured Gas Plants." The electric generation activities of Utilities are also subject to the Clean Air Act Amendments, the Federal Water Pollution Control Act and comparable state statutes and regulations. See "UTILITY OPERATIONS - Generation and Distribution of Electricity-Environmental Factors."

UGI ENTERPRISES, INC.

UGI Enterprises, Inc. is a wholly owned subsidiary of UGI that was formed in 1994. Through its subsidiaries, Enterprises is developing the domestic and international energy businesses described below.

NATURAL GAS AND ELECTRICITY MARKETING

In 1995, the gas marketing business previously conducted by a subsidiary of Utilities was transferred to UGI Energy Services, Inc. ("Energy Services"), a wholly owned subsidiary of Enterprises. Energy Services conducts this business under the trade names GASMARK(R) and POWERMARK. GASMARK(R) sells natural gas directly to more than 900 commercial and industrial customers in the Mid-Atlantic region and Ohio through the transportation systems of 15 utility systems and recently it began to market electricity to retail customers in Pennsylvania. Another Enterprises subsidiary, UGI Power Supply, Inc., has FERC authority to engage in wholesale electric power sales.

INTERNATIONAL ENERGY-RELATED JOINT VENTURES

During 1996, Enterprises formed a joint venture with affiliates of Energy Transportation Group, Inc. ("ETG") and North American World Trade, Ltd. to develop, build and operate a liquefied petroleum gas ("LPG") import project in Romania. ETG has extensive experience in the transportation of liquefied natural gas, and North American World Trade, Ltd. is a consulting firm with Romanian expertise. The joint venture is known as Black Sea LPG, L.P. The project will include construction of a marine LPG import terminal and propane-air mixing plants to deliver propane to Bucharest, Romania's capital. Enterprises has funded the initial development of the joint venture through its subsidiary, UGI Black Sea Enterprises, Inc. Black Sea LPG, L.P. will develop the project and UGI Black Sea Enterprises, Inc. will operate the terminal and the propane-air plants. On December 11, 1997, affiliates of Enterprises and ETG entered into an agreement creating a Romanian joint venture known as Black Sea LPG Romania, S.A. for the purpose of financing and constructing the project. The Romanian partners in this venture are Regia Autonoma a Gazelor Naturale "Romgaz" Medias, the Romanian national gas utility; Regia Autonoma de Electricitate "Renel", the Romanian national electric utility; and Rompetrol, S.A., a privately-held energy services company. The current economic climate in Romania has slowed development of the project.

During 1998, Enterprises formed a joint venture known as ChinaGas Partners, L.P. ("ChinaGas") with affiliates of ETG to develop, build and operate LPG projects in the People's Republic of China. On October 28, 1998, ChinaGas acquired 50% of the shares of an existing Chinese company known as the Nantong Huayang LPG Port Co., Ltd. ("Port Company") which operates an integrated LPG business, including an import terminal and distribution business, serving the provinces along the lower and middle reaches of the Yangtze River. The other shareholders in the Port Company are China National Chemical Supply & Sales Corporation and two of its affiliates. Three of our experienced employees have been placed in key management positions within the Port Company, including the position of General Manager. These employees

will guide the introduction of our propane operating techniques and lead the expansion of the business.

In addition, on October 31, 1998, ChinaGas signed a Cooperation Agreement with the Hainan Minsheng Gas Corporation to develop an integrated LPG company, including import facilities and distribution businesses, to serve parts of southwest China.

BUSINESS SEGMENT INFORMATION

The table stating the amounts of revenues, operating income (loss) and identifiable assets attributable to each of UGI's business segments for the 1998, 1997 and 1996 fiscal years appears on page 22 of UGI's 1998 Annual Report to Shareholders and is incorporated in this Report by reference.

EMPLOYEES

At September 30, 1998, UGI and its subsidiaries had 6,381 employees.

ITEM 3. LEGAL PROCEEDINGS

With the exception of the matters set forth below, no material legal proceedings are pending involving UGI, any of its subsidiaries or any of their properties, and no such proceedings are known to be contemplated by governmental authorities.

ENVIRONMENTAL MATTERS - MANUFACTURED GAS PLANTS

Prior to the general availability of natural gas, in the 1800s through the mid-1900s, manufactured gas was a chief source of gas for lighting and heating nationwide. The process involved heating certain combustibles such as coal, oil and coke in a low-oxygen atmosphere. Methods of production included coal carbonization, carbureted water gas and catalytic cracking. These methods were employed at many different sites throughout the country. The residue from gas manufacturing, including coal tar, was typically stored on site, burned in the gas plant, or sold for commercial use. Some constituents of coal tars produced from the manufactured gas process are today considered hazardous substances under the Superfund Law.

The gas distribution business has been one of Utilities' principal lines of business since its inception in 1882. One of the ways Utilities initially expanded its business in its early years was by entering into agreements with other gas companies to operate their businesses. After 1888, the principal means by which Utilities expanded its gas business was to acquire all or a portion of the stock of companies engaged in this business. Utilities also provided management and administrative services to some of these companies. Utilities grew rapidly by means of stock acquisitions and became one of the largest public utility holding companies in the country. Pursuant to the requirements of the Public Utility Holding Company Act of 1935, Utilities divested all of its utility operations other than those which now constitute the Gas Utility and the Electric Utility.

The manufactured gas process was once used by Utilities in connection with providing gas service to its customers. In addition, virtually all of the gas companies that Utilities operated or to which it provided services, or in which Utilities held stock, utilized a manufactured gas process. Utilities has been notified of several sites outside Pennsylvania on which (i) gas plants were formerly operated by it or owned or operated by its former subsidiaries and (ii) either environmental agencies or private parties are investigating the extent of environmental contamination and the necessity of environmental remediation. Utilities is currently litigating a claim against it relating to an out-of-state site. If Utilities were found liable as a "responsible party" as defined in the Superfund Law (or comparable state statutes) with respect to this site, it would have joint and several liability with other responsible parties for the full amount of the cleanup costs. A "responsible party" under that statute includes (i) the current owner of the affected property and (ii) each owner or operator of a facility during the time when hazardous substances were released on the property.

Management believes that Utilities should not have significant liability in those instances in which a former subsidiary operated a manufactured gas plant because Utilities generally is not

legally liable for the obligations of its subsidiaries. Under certain circumstances, however, a court could find a parent company liable for environmental damage caused by a subsidiary company when the parent company either (i) itself operated the facility causing the environmental damage or (ii) otherwise so controlled the subsidiary that the subsidiary's separate corporate form should be disregarded. There could be, therefore, significant future costs of an uncertain amount associated with environmental damage caused by manufactured gas plants that Utilities owned or directly operated, or that were owned or operated by former subsidiaries of Utilities, if a court were to conclude that the subsidiary's separate corporate form should be disregarded.

Utilities believes that there are approximately 40 manufactured gas plant sites in Pennsylvania where either (i) Utilities formerly operated the plant or (ii) Utilities owns or at one time owned the site. Most of the sites are no longer owned by Utilities and the gas plants formerly operated at these 40 sites have all been out of operation since at least the early 1950s. Utilities or other parties are currently conducting investigative or remedial activities at nine of the 40 sites. Based on the 1995 settlement agreement with the PUC relating to Gas Utilities' 1995 base rate increase filing, rate relief will be permitted for certain remediation expenditures on environmentally contaminated sites located in Pennsylvania. Because of this, Utilities does not expect its costs for Pennsylvania sites to be material to its results of operations.

The following is a short description of the status of certain matters involving Utilities related to manufactured gas plants located in other states. See also Notes 1 and 11 to the Company's Consolidated Financial Statements.

OUT OF STATE GAS PLANT SITES

1. Halladay Street, Jersey City, New Jersey. By letter dated April 12, 1993, Public Service Electric and Gas Company ("PSE&G") informed Utilities that PSE&G had been named as a defendant in a civil action pending in the United States District Court for the District of New Jersey, seeking damages as a result of contamination relating to the former manufactured gas plant operations at Halladay Street in Jersey City, New Jersey. The Halladay Street gas plant operated from approximately 1884 until 1950. PSE&G asserted that Utilities is liable for that portion of the costs associated with operations of the plant between 1886 and 1899. PPG Industries, Inc. has also been named as a defendant in the action for costs associated with chemical contamination at the site unrelated to gas plant operations. In July 1993, PSE&G served Utilities with a complaint naming Utilities as a third-party defendant in this civil action. PSE&G subsequently amended the complaint to allege additional theories of liability for the period from 1899 to 1940. To date, that action has focused on the chemical contamination allegedly associated with PPG Industries' activities and there have been no developments concerning liability for gas plant related contamination. Investigations of the site conducted to date are insufficient to establish the extent of environmental remediation necessary, if any. Hence, Utilities is unable to estimate the total cost of cleanup associated with manufactured gas plant wastes at this site.

2. Savannah, Georgia. On March 2, 1992, Atlanta Gas Light Company ("AGL") informed Utilities that it was investigating contamination that appears to be related to manufactured gas plant operations at a site owned by AGL in Savannah, Georgia. AGL believes that Utilities may be liable for investigative and remedial costs as a result of having operated the gas plant through a subsidiary company in the early 1900s. AGL has stated its intention to bring suit against Utilities. AGL estimates that total costs to remediate the site may exceed \$5 million. Management believes that Utilities has substantial defenses to any action that may arise out of the activities of its former subsidiary at this site.

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.

EXECUTIVE OFFICERS

Information regarding our executive officers is included in Part III of this Report and is incorporated in Part I by reference.

PART II: SECURITIES AND FINANCIAL INFORMATION

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY
AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION

Our Common Stock is traded on the New York and Philadelphia stock exchanges under the symbol "UGI". The following table sets forth the high and low sales prices for the Common Stock on the New York Stock Exchange Composite Transactions tape as reported in The Wall Street Journal for each full quarterly period within the two most recent fiscal years:

1998 FISCAL YEAR	HIGH	LOW
4th Quarter	\$25.813	\$20.500
3rd Quarter	28.750	23.750
2nd Quarter	29.750	27.000
1st Quarter	30.125	25.125

1997 FISCAL YEAR	HIGH	LOW
4th Quarter	\$28.000	\$22.125
3rd Quarter	24.375	21.625
2nd Quarter	25.375	21.750
1st Quarter	24.125	20.875

DIVIDENDS

Quarterly dividends on our Common Stock were paid in the 1998 and 1997 fiscal years as follows:

1998 FISCAL YEAR	AMOUNT
4th Quarter	\$.365
3rd Quarter	.360
2nd Quarter	.360
1st Quarter	.360

1997 FISCAL YEAR	AMOUNT
4th Quarter	\$.360
3rd Quarter	.355
2nd Quarter	.355
1st Quarter	.355

HOLDERS

On December 1, 1998, UGI had 13,007 holders of record of Common Stock.

ITEM 6. SELECTED FINANCIAL DATA

	Year Ended September 30,				
	1998	1997	1996	1995	1994
	(Millions of dollars, except per share amounts)				
FOR THE PERIOD:					
Income statement data:					
Revenues	\$ 1,439.7 =====	\$ 1,642.0 =====	\$ 1,557.6 =====	\$ 877.6 =====	\$ 762.2 =====
Income from:					
Continuing operations	\$ 40.3	\$ 52.1	\$ 39.5	\$ 7.9	\$ 37.4
Discontinued operations	--	--	--	--	7.6
	-----	-----	-----	-----	-----
Income before extraordinary loss and change in accounting	40.3	52.1	39.5	7.9	45.0
Extraordinary loss - debt restructuring	--	--	--	(13.2)	--
Change in accounting for postemployment benefits	--	--	--	(3.1)	--
	-----	-----	-----	-----	-----
Net income (loss)	\$ 40.3 =====	\$ 52.1 =====	\$ 39.5 =====	\$ (8.4) =====	\$ 45.0 =====
Diluted earnings per share:					
Earnings from continuing operations	\$ 1.22	\$ 1.57	\$ 1.19	\$ 0.24	\$ 1.16
Earnings from discontinued operations	--	--	--	--	0.23
	-----	-----	-----	-----	-----
Earnings before extraordinary loss and change in accounting	1.22	1.57	1.19	0.24	1.39
Extraordinary loss - debt restructuring	--	--	--	(0.40)	--
Change in accounting for postemployment benefits	--	--	--	(0.10)	--
	-----	-----	-----	-----	-----
Net earnings (loss)	\$ 1.22 =====	\$ 1.57 =====	\$ 1.19 =====	\$ (0.26) =====	\$ 1.39 =====
Cash dividends declared	\$ 1.45 =====	\$ 1.43 =====	\$ 1.41 =====	\$ 1.39 =====	\$ 1.36 =====
Total assets	\$ 2,074.6 =====	\$ 2,151.7 =====	\$ 2,133.0 =====	\$ 2,152.3 =====	\$ 1,182.2 =====
Capitalization:					
Debt:					
Bank loans - Propane	\$ 10.0	\$ 28.0	\$ 15.0	\$ --	\$ --
Bank loans - Utilities	68.4	67.0	50.5	42.0	17.0
Long-term debt (including current maturities):					
Propane	709.0	691.1	692.5	658.5	210.3
Utilities	187.2	169.3	174.8	206.3	175.6
Other	8.2	8.6	9.0	9.3	9.6
	-----	-----	-----	-----	-----
Total debt	982.8 =====	964.0 =====	941.8 =====	916.1 =====	412.5 =====
Minority interest in AmeriGas Partners	236.5	266.5	284.4	318.9	--
UGI Utilities preferred stock subject to mandatory redemption	20.0	35.2	35.2	35.2	35.2
Common stockholders' equity	367.1	376.1	377.6	380.5	424.3
	-----	-----	-----	-----	-----
Total capitalization	\$ 1,606.4 =====	\$ 1,641.8 =====	\$ 1,639.0 =====	\$ 1,650.7 =====	\$ 872.0 =====
Ratio of capitalization:					
Total debt	61.2%	58.7%	57.5%	55.5%	47.3%
Minority interest	14.7%	16.3%	17.4%	19.3%	--
UGI Utilities preferred stock	1.2%	2.1%	2.1%	2.1%	4.0%
Common stockholders' equity	22.9%	22.9%	23.0%	23.1%	48.7%
	-----	-----	-----	-----	-----
	100.0%	100.0%	100.0%	100.0%	100.0%
	-----	-----	-----	-----	-----

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

Management's Discussion and Analysis of Financial Condition and Results of Operations, entitled "Financial Review" and contained on pages 13 through 21 of UGI's 1998 Annual Report to Shareholders, is incorporated in this report by reference.

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" on page 20 and 21 of the UGI 1998 Annual Report to Shareholders and is incorporated in this report 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 in this Report by reference.

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

During fiscal year 1997, UGI engaged a new independent auditor, Arthur Andersen LLP. The information required by Item 9 is incorporated in this Report by reference to UGI's Amendment No. 1 on Form 8-K/A to its Current Report on Form 8-K dated July 11, 1997.

PART III: UGI MANAGEMENT AND SECURITY HOLDERS

ITEMS 10 THROUGH 13.

In accordance with General Instruction G(3), and except as set forth below, the information required by Items 10, 11, 12 and 13 is incorporated in this Report by reference to the following portions of UGI's Proxy Statement, which will be filed with the Securities and Exchange Commission by January 28, 1999:

INFORMATION -----	CAPTIONS OF PROXY STATEMENT INCORPORATED BY REFERENCE -----
Item 10. Directors and Executive Officers of Registrant.	Election of Directors - Nominees
Item 11. Executive Compensation.	Compensation of Executive Officers Compensation of Directors
Item 12. Security Ownership of Certain Beneficial Owners and Management.	Securities Ownership of Management
Item 13. Certain Relationships and Related Transactions.	Compensation of Executive Officers- Stock Ownership Policy and Indebtedness of Management

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

EXECUTIVE OFFICERS

NAME ----	AGE ---	POSITION -----
Lon R. Greenberg	48	Chairman, Director, President and Chief Executive Officer
Brendan P. Bovaird	50	Vice President and General Counsel
Michael J. Cuzzolina	53	Vice President - Accounting and Financial Control
Bradley C. Hall	45	Vice President - New Business Development

Anthony J. Mendicino	50	Vice President - Finance and Chief Financial Officer
Richard L. Bunn	62	President and Chief Executive Officer, UGI Utilities, Inc.

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

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

The following is a summary of the business experience of the executive officers listed above during at least the last five years. For purposes of the summary of business experience set forth below, references to "the Company," "UGI" and "the Board" prior to February 19, 1992 refer to Utilities (formerly, UGI Corporation) or the Board of Directors of Utilities, respectively.

Lon R. Greenberg

Mr. Greenberg was elected Chairman of UGI effective August 1, 1996, having been elected Chief Executive Officer effective August 1, 1995. He was elected Director and President of UGI and a Director of UGI Utilities in July 1994. Mr. Greenberg was Senior Vice President - Legal and Corporate Development (1989 to 1994), and also served as Vice President - Legal and Corporate Development (1987 to 1989). Previously, he was Vice President Legal (1984 to 1987), General Counsel (1983 to 1994) and Secretary (1982 to 1988). He joined the Company in 1980 as Corporate Development Counsel. Mr. Greenberg is also a director on the Mellon PSFS Advisory Board.

Brendan P. Bovaird

Mr. Bovaird is Vice President and General Counsel of UGI (since April 1995). He is also Vice President and General Counsel of UGI Utilities, Inc., and AmeriGas Propane, Inc. (since April 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).

Michael J. Cuzzolina

Mr. Cuzzolina is Vice President - Accounting and Financial Control of the Company (since 1984). He joined the Company in 1974 and has previously served as Treasurer and Assistant Controller of the Company and as Vice President - Finance of AmeriGas.

Bradley C. Hall

Mr. Hall was elected Vice President - New Business Development on October 25, 1994, having been Vice President - Marketing and Rates, UGI Utilities, Inc. Gas Division. He also serves as President of UGI Enterprises, Inc. (since 1994). He joined the Company in 1982 and held various positions in Gas Utility.

Anthony J. Mendicino

Mr. Mendicino was elected Vice President - Finance and Chief Financial Officer on September 8, 1998. He previously served as President and Chief Operating Officer (July 1997 to June 1998) and as Senior Vice President (January 1997 to June 1997) of Eastwind Group, Inc., a holding company formed to acquire and consolidate middle-market manufacturing businesses. Mr. Mendicino was Senior Vice President and Chief Financial Officer and a director (1987 to 1996) of UTI Energy Corp., a diversified oil field service company. From 1980 to 1986 Mr. Mendicino held various positions with UGI, including Treasurer from 1984 to 1987.

Richard L. Bunn

Mr. Bunn is President and Chief Executive Officer of UGI Utilities, Inc., (since May 1992). Mr. Bunn began his career with UGI as an engineer in Electric Utility (1958).

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), (2) 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 through 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
3.1	(Second) Amended and Restated Articles of Incorporation of the Company	UGI	Amendment No. 1 on Form 8 to Form 8-B (4/10/92)	3.(3)(a)
*3.2	Bylaws of UGI as in effect since October 27, 1998			
4	Instruments defining the rights of security holders, including indentures. (The Company agrees to furnish to the Commission upon request a copy of any instrument defining the rights of holders of its long-term debt not required to be filed pursuant to Item 601(b)(4) of Regulation S-K)			
4.1	Rights Agreement, as amended as of April 17, 1996, between the Company and Mellon Bank, N.A., successor to Mellon Bank (East) N.A., as Rights Agent, and Assumption Agreement dated April 7, 1992	UGI	Form 8-K (4/17/96)	4.1
4.2	The description of the Company's Common Stock contained in the Company's registration statement filed under the Securities Exchange Act of 1934, as amended	UGI	Form 8-B/A (4/17/96)	3.(4)
4.3	UGI's (Second) Amended and Restated Articles of Incorporation and Bylaws referred to in 3.1 and 3.2 above			
4.4	Utilities' Articles of Incorporation	Utilities	Form 8-K (9/22/94)	4(a)
4.5	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
4.6	First Amendment dated as of September 12, 1997 to Note Agreement dated as of April 12, 1995	AmeriGas Partners, L.P.	Form 10-K (9/30/97)	4.5
4.7	Second Amendment dated as of September 15, 1998 to Note Agreement dated as of April 12, 1995	AmeriGas Partners, L.P.	Form 10-K (9/30/98)	4.6

INCORPORATION BY REFERENCE

EXHIBIT NO.	EXHIBIT	REGISTRANT	FILING	EXHIBIT
10.1	Service Agreement (Rate FSS) dated as of November 1, 1989 between Utilities and Columbia, as modified pursuant to the orders of the Federal Energy Regulatory Commission at Docket No. RS92-5-000 reported at Columbia Gas Transmission Corp., 64 FERC P. 61,060 (1993), order on rehearing, 64 FERC P. 61,365 (1993)	UGI	Form 10-K (9/30/95)	10.5
10.2	Service Agreement (Rate FTS) dated June 1, 1987 between Utilities and Columbia, as modified by Supplement No. 1 dated October 1, 1988; Supplement No. 2 dated November 1, 1989; Supplement No. 3 dated November 1, 1990; Supplement No. 4 dated November 1, 1990; and Supplement No. 5 dated January 1, 1991, as further modified pursuant to the orders of the Federal Energy Regulatory Commission at Docket No. RS92-5-000 reported at Columbia Gas Transmission Corp., 64 FERC P. 61,060 (1993), order on rehearing, 64 FERC P. 61,365 (1993)	Utilities	Form 10-K (12/31/90)	(10)o.
10.3	Transportation Service Agreement (Rate FTS-1) dated November 1, 1989 between Utilities and Columbia Gulf Transmission Company, as modified pursuant to the orders of the Federal Energy Regulatory Commission in Docket No. RP93-6-000 reported at Columbia Gulf Transmission Co., 64 FERC P. 61,060 (1993), order on rehearing, 64 FERC P. 61,365 (1993)	Utilities	Form 10-K (12/31/90)	(10)p.
10.4	Amended and Restated Sublease Agreement dated April 1, 1988 between Southwest Salt Co. and AP Propane, Inc. (the "Southwest Salt Co. Agreement")	UGI	Form 10-K (9/30/94)	10.35
10.5	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	Form 10-K (9/30/94)	10.36
10.6**	UGI Corporation Directors Deferred Compensation Plan dated August 26, 1993	UGI	Form 10-K (9/30/94)	10.39
10.7**	UGI Corporation 1992 Stock Option and Dividend Equivalent Plan, as amended May 19, 1992	UGI	Form 10-Q (6/30/92)	(10)ee

INCORPORATION BY REFERENCE

EXHIBIT NO.	EXHIBIT	REGISTRANT	FILING	EXHIBIT
10.8**	UGI Corporation Annual Bonus Plan dated March 8, 1996	UGI	Form 10-Q (6/30/96)	10.4
10.9**	UGI Corporation Directors' Equity Compensation Plan	UGI	Form 10-Q (3/31/97)	10.1
10.10**	UGI Corporation 1997 Stock Option and Dividend Equivalent Plan	UGI	Form 10-Q (3/31/97)	10.2
10.11**	UGI Corporation 1992 Directors' Stock Plan	UGI	Form 10-Q (6/30/92)	(10)ff
10.12**	UGI Corporation Senior Executive Employee Severance Pay Plan effective January 1, 1997	UGI	Form 10-K (9/30/97)	10.12
10.13**	Change of Control Agreement between UGI Corporation and Lon R. Greenberg	UGI	Form 10-K (9/30/97)	10.13
10.14**	Form of Change of Control Agreement between UGI Corporation and Mr. Bunn	UGI	Form 10-K (9/30/97)	10.14
10.15**	Form of Change of Control Agreement between UGI Corporation and each of Messrs. Bovaird, Cuzzolina, Hall and Mendicino	UGI	Form 10-K (9/30/97)	10.15
10.16**	1997 Stock Purchase Loan Plan	UGI	Form 10-K (9/30/97)	10.16
10.17**	UGI Corporation Supplemental Executive Retirement Plan Amended and Restated effective October 1, 1996	UGI	Form 10-Q (6/30/98)	10
10.18	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
10.19	First Amendment dated as of September 15, 1998 to Amended and Restated Credit Agreement	AmeriGas Partners, L.P.	Form 10-K (9/30/98)	10.2

 INCORPORATION BY REFERENCE

EXHIBIT NO.	EXHIBIT	REGISTRANT	FILING	EXHIBIT
10.20	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
10.21	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
10.22	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
10.23	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
10.24	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
10.25	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
10.26	Agreement dated as of May 1, 1996 between TE Products Pipeline Company, L.P. and AmeriGas Propane, L.P.	AmeriGas Partners, L.P.	Form 10-K (9/30/97)	10.2
*13.1	Pages 13 through 43 of 1998 Annual Report to Shareholders			
*13.2	Amendment No. 1 on Form 8-K/A to Form 8-K dated July 11, 1997			

 INCORPORATION BY REFERENCE

EXHIBIT NO.	EXHIBIT	REGISTRANT	FILING	EXHIBIT
*21	Subsidiaries of the Registrant			
*23.1	Consent of Arthur Andersen LLP re: Financial Statements of UGI Corporation			
*23.2	Consent of Arthur Andersen LLP re: Financial Statements of AmeriGas Propane, Inc.			
*23.3	Consent of PricewaterhouseCoopers LLP			
*27	Financial Data Schedule			

* 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, the Company did not file 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.

UGI CORPORATION

Date: December 15, 1998

By: Anthony J. Mendicino

Anthony J. Mendicino
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 15, 1998, by the following persons on behalf of the Registrant in the capacities indicated.

SIGNATURE - - - - -	TITLE -----
Lon R. Greenberg - - - - -	Chairman, President and Chief Executive Officer
Lon R. Greenberg	(Principal Executive Officer) and Director
Anthony J. Mendicino - - - - -	Vice President - Finance and Chief Financial
Anthony J. Mendicino	Officer (Principal Financial Officer)
Michael J. Cuzzolina - - - - -	Vice President - Accounting and
Michael J. Cuzzolina	Financial Control (Principal Accounting Officer)
Stephen D. Ban - - - - -	Director
Stephen D. Ban	
Thomas F. Donovan - - - - -	Director
Thomas F. Donovan	

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SIGNATURE	TITLE
- - - - -	-----
Richard C. Gozon	Director
- - - - -	
Richard C. Gozon	
Marvin O. Schlanger	Director
- - - - -	
Marvin O. Schlanger	
James W. Stratton	Director
- - - - -	
James W. Stratton	
David I. J. Wang	Director
- - - - -	
David I. J. Wang	

UGI CORPORATION AND SUBSIDIARIES

FINANCIAL INFORMATION
FOR INCLUSION IN ANNUAL REPORT ON FORM 10-K
YEAR ENDED SEPTEMBER 30, 1998

Title

F-1

UGI CORPORATION AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

The consolidated financial statements and supplementary data of UGI Corporation and subsidiaries, together with the report thereon of Arthur Andersen LLP dated November 13, 1998, listed in the following index, are included in UGI's 1998 Annual Report to Shareholders and are incorporated in this Form 10-K Annual Report by reference. With the exception of the pages listed in this index and information incorporated in Items 1, 2, 5, 7 and 8, the 1998 Annual Report to Shareholders is not to be deemed filed as part of this Report.

	Reference	
	Form 10-K (page)	Annual Report to Shareholders (page)
Reports of Independent Public Accountants:		
On Consolidated Financial Statements		43
On Financial Statement Schedules	F-4	
On Consolidated Financial Statements and Financial Statement Schedule	F-5	
Report of Independent Public Accountants on the Consolidated Financial Statements of AmeriGas Propane, Inc. and subsidiaries for the fiscal year ended September 30, 1996	F-6	
Financial Statements:		
Consolidated Balance Sheets, September 30, 1998 and 1997		24 to 25
For the years ended September 30, 1998, 1997 and 1996:		
Consolidated Statements of Income		23
Consolidated Statements of Cash Flows		26
Consolidated Statements of Stockholders' Equity		27
Index	F-2	

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES (CONTINUED)

	Reference	
	Form 10-K (page)	Annual Report to Shareholders (page)
Notes to Consolidated Financial Statements		28 to 42
Supplementary Data (unaudited):		
Quarterly Data for the years ended September 30, 1998 and 1997		42
Financial Statement Schedules:		
For the years ended September 30, 1998, 1997 and 1996:		
I - Condensed Financial Information of Registrant (Parent Company)	S-1 to S-3	
II - Valuation and Qualifying Accounts	S-4 to S-5	

Annual Reports on Form 10-K/A

Annual Reports on Form 10-K/A for the UGI Utilities, Inc. and AmeriGas Propane, Inc. savings plans will be filed by amendment within the time period specified by Rule 15d-21(b).

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.

To the Board of Directors and Stockholders of
UGI Corporation:

We have audited, in accordance with generally accepted auditing standards, the consolidated financial statements included in UGI Corporation's annual report to shareholders 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 pages F-2 and F-3 are the responsibility of UGI Corporation's management and are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. The information for the years ended September 30, 1998 and 1997 included on these schedules has 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

To the Board of Directors and Stockholders of
UGI Corporation

We have audited the accompanying consolidated statements of income, stockholders' equity and cash flows of UGI Corporation and subsidiaries for the year ended September 30, 1996. We have also audited the related financial statement schedules for the year ended September 30, 1996 listed in the index on pages F-2 and F-3 inclusive, of this Form 10-K. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audit. We did not audit the consolidated financial statements of AmeriGas Propane, Inc. and subsidiaries, for the year ended September 30, 1996, which statements reflect total revenues constituting 65 percent of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for AmeriGas Propane, Inc. and subsidiaries for those periods, is based solely on the report of the other auditors.

We conducted our audit 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 audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements and financial statement schedules referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of UGI Corporation and subsidiaries for the year ended September 30, 1996, in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

Philadelphia, Pennsylvania
November 22, 1996

To the Board of Directors of AmeriGas Propane, Inc.:

We have audited the consolidated balance sheet of AmeriGas Propane, Inc. (a Pennsylvania corporation and a wholly owned subsidiary of AmeriGas, Inc.) and subsidiaries as of September 30, 1996, and the related consolidated statements of operations, stockholder's equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit 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 audit provides 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 Propane, Inc. and subsidiaries as of September 30, 1996, and the results of their operations and their cash flows for the year then ended, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Chicago, Illinois
November 22, 1996

UGI CORPORATION AND SUBSIDIARIES
SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (PARENT COMPANY)

BALANCE SHEETS
(Millions of dollars)

	September 30, 1998	1997
ASSETS	-----	-----
Current assets:		
Cash and cash equivalents	\$ 15.2	\$ 20.1
Accounts receivable	0.5	0.5
Deferred income taxes	0.2	0.2
Prepaid expenses and other current assets	0.5	0.1
	-----	-----
Total current assets	16.4	20.9
Investments in subsidiaries	375.1	376.2
Other assets	2.1	4.0
	-----	-----
Total assets	\$393.6	\$401.1
	=====	=====
LIABILITIES AND COMMON STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts and notes payable	\$ 10.3	\$ 10.3
Accrued liabilities	13.1	13.2
	-----	-----
Total current liabilities	23.4	23.5
Noncurrent liabilities	3.2	1.5
Common stockholders' equity:		
Common Stock, without par value (authorized - 100,000,000 shares; issued - 33,198,731 shares)	394.3	393.7
Accumulated deficit	(17.7)	(9.2)
	-----	-----
Less treasury stock, at cost	376.6	384.5
	(9.6)	(8.4)
	-----	-----
Total common stockholders' equity	367.0	376.1
	-----	-----
Total liabilities and common stockholders' equity	\$393.6	\$401.1
	=====	=====

UGI CORPORATION AND SUBSIDIARIES
SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (PARENT COMPANY)

STATEMENTS OF INCOME
(Millions of dollars, except per share amounts)

	Year Ended September 30,		
	1998	1997	1996
	-----	-----	-----
Revenues	\$ --	\$ --	\$ --
Costs and expenses:			
Operating and administrative expenses	10.7	12.2	10.1
Miscellaneous income, net	(10.4)	(14.8)	(13.4)
	-----	-----	-----
	0.3	(2.6)	(3.3)
	-----	-----	-----
Operating income (loss)	(0.3)	2.6	3.3
Interest income	--	--	0.1
	-----	-----	-----
Income (loss) before income taxes	(0.3)	2.6	3.4
Income taxes	(0.1)	1.1	1.4
	-----	-----	-----
Income (loss) before equity in income of unconsolidated subsidiaries	(0.2)	1.5	2.0
Equity in income of unconsolidated subsidiaries	40.5	50.6	37.5
	-----	-----	-----
Net income	\$ 40.3	\$ 52.1	\$ 39.5
	=====	=====	=====
Earnings per common share:			
Basic	\$ 1.22	\$ 1.58	\$ 1.19
	=====	=====	=====
Diluted	\$ 1.22	\$ 1.57	\$ 1.19
	=====	=====	=====

UGI CORPORATION AND SUBSIDIARIES
SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (PARENT COMPANY)

STATEMENTS OF CASH FLOWS
(Millions of dollars)

	Year Ended September 30,		
	1998	1997	1996
NET CASH PROVIDED BY OPERATING ACTIVITIES (a)	\$77.8	\$77.5	\$96.6
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investments in unconsolidated subsidiaries	(34.8)	(74.6)	(1.1)
Other	2.5	20.6	(21.1)
Net cash used by investing activities	(32.3)	(54.0)	(22.2)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment of dividends on Common Stock	(47.6)	(47.2)	(46.4)
Issuance of Common Stock	8.5	11.7	11.3
Purchase of Common Stock	(11.3)	(19.2)	(7.1)
Net cash used by financing activities	(50.4)	(54.7)	(42.2)
Cash and cash equivalents increase (decrease)	\$(4.9)	\$(31.2)	\$32.2
Cash and cash equivalents:			
End of period	\$15.2	\$20.1	\$51.3
Beginning of period	20.1	51.3	19.1
Increase (decrease)	\$(4.9)	\$(31.2)	\$32.2

(a) Includes dividends received from unconsolidated subsidiaries of \$77.6, \$75.8 and \$95.2, respectively, for the years ended September 30, 1998, 1997 and 1996.

UGI CORPORATION AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
(Millions of dollars)

	Balance at beginning of year -----	Charged (credited) to costs and expenses -----	Other -----	Balance at end of year -----
YEAR ENDED SEPTEMBER 30, 1998				
Reserves deducted from assets in the consolidated balance sheet:				
Allowance for doubtful accounts	\$11.3 =====	\$ 8.4	\$(11.8)(1)	\$ 7.9 =====
Allowance for amortization of deferred financing costs - Propane	\$ 3.8 =====	\$ 1.6	\$ --	\$ 5.4 =====
Allowance for amortization of other deferred costs - Propane	\$ 3.9 =====	\$ 0.7	\$ --	\$ 4.6 =====
Other reserves:				
Self-insured property and casualty liability	\$48.5 =====	\$11.7	\$(11.7)(2)	\$48.5 =====
Insured property and casualty liability	\$ 1.8 =====	\$ 2.9	\$ (0.4)(2)	\$ 4.3 =====
Environmental, litigation and other	\$22.6 =====	\$(4.0)	\$ (4.7)(2)	\$13.9 =====
YEAR ENDED SEPTEMBER 30, 1997				
Reserves deducted from assets in the consolidated balance sheet:				
Allowance for doubtful accounts	\$10.6 =====	\$11.3	\$(10.6)(1)	\$11.3 =====
Allowance for amortization of deferred financing costs - Propane	\$ 2.2 =====	\$ 1.6	\$ --	\$ 3.8 =====
Allowance for amortization of other deferred costs - Propane	\$ 2.8 =====	\$ 1.1	\$ --	\$ 3.9 =====
Other reserves:				
Self-insured property and casualty liability	\$47.7 =====	\$11.3	\$(10.5)(2)	\$48.5 =====
Insured property and casualty liability	\$19.0 =====	\$ 3.3	\$(20.5)(2)	\$ 1.8 =====
Environmental, litigation and other	\$16.1 =====	\$ 7.6	\$ (1.1)(2)	\$22.6 =====

UGI CORPORATION AND SUBSIDIARIES
 SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS (CONTINUED)
 (Millions 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	\$ 7.3 =====	\$10.5	\$(7.2)(1)	\$10.6 =====
Allowance for amortization of deferred financing costs - Propane	\$ 0.7 =====	\$ 1.5	\$ --	\$ 2.2 =====
Allowance for amortization of other deferred costs - Propane	\$ 1.8 =====	\$ 1.0	\$ --	\$ 2.8 =====
Other reserves:				
Self-insured property and casualty liability	\$48.5 =====	\$14.0	\$(14.8)(2)	\$47.7 =====
Insured property and casualty liability	\$11.7 =====	\$ 6.8	\$ 0.5 (3)	\$19.0 =====
Environmental, litigation and other	\$26.1 =====	\$(7.1)	\$(2.9)(2)	\$16.1 =====

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

(2) Payments.

(3) Other adjustments.

EXHIBIT INDEX

EXHIBIT NO. - - - - -	DESCRIPTION - - - - -
3.2	Bylaws of UGI as in effect since October 27, 1998
13.1	Pages 13 to 43 of 1998 Annual Report to Shareholders
13.2	Amendment No. 1 on Form 8-K/A to Form 8-K dated July 11, 1997
21	Subsidiaries of the Registrant
23.1	Consent of Arthur Andersen LLP re: Financial Statements of UGI Corporation
23.2	Consent of Arthur Andersen LLP re: Financial Statements of AmeriGas Propane, Inc.
23.3	Consent of PricewaterhouseCoopers LLP
27	Financial Data Schedule

BYLAWS
OF
UGI CORPORATION
(A PENNSYLVANIA REGISTERED CORPORATION)

ARTICLE I

OFFICES AND FISCAL YEAR

SECTION 1.01. REGISTERED OFFICE. The registered office of the corporation in the Commonwealth of Pennsylvania shall be at 460 North Gulph Road, King of Prussia, Montgomery County, Pennsylvania 19406, until otherwise established by an amendment of the articles of incorporation (the "articles") or by the board of directors and a record of such change is filed with the Department of State in the manner provided by law.

SECTION 1.02. OTHER OFFICES. The corporation may also have offices at such other places within or without the Commonwealth of Pennsylvania as the board of directors may from time to time appoint or the business of the corporation may require.

SECTION 1.03. FISCAL YEAR. The fiscal year of the corporation shall begin on the first day of October in each year.

ARTICLE II

NOTICE-WAIVERS-MEETINGS GENERALLY

SECTION 2.01. MANNER OF GIVING NOTICE.

(a) General Rule. Whenever written notice is required to be given to any person under the provisions of the Business Corporation Law or by the articles or these bylaws, it may be given to the person either personally or by sending a copy thereof by first class or express mail, postage prepaid, or by telegram (with messenger service specified), telex or TWX (with answerback received) or courier service, charges prepaid, or by facsimile transmission, to the address (or to the telex, TWX, facsimile or telephone number) of the person appearing on the books of the corporation or, in the case of directors, supplied by the director to the corporation for the purpose of notice. A notice of meeting shall specify the place, day and hour of the meeting and any other information required by any other provision of the Business Corporation Law, the articles or these bylaws. If the notice is sent by mail, telegraph or courier service, it shall be deemed to have been given to the person entitled thereto when deposited in the United States mail or with a telegraph office or courier service for delivery to that person or, in the case of telex or TWX, when dispatched or, in the case of facsimile transmission, when received.

(b) Bulk Mail. If the corporation has more than 30 shareholders, notice of any regular or special meeting of the shareholders, or any other notice required by the Business Corporation Law or by the articles or these bylaws to be given to all shareholders or to all holders of a class or series of shares, may be given by any class of postpaid mail if the notice is deposited in the United States mail at least 20 days prior to the day named for the meeting or any corporate or shareholder action specified in the notice.

(c) Adjourned Shareholder Meetings. When a meeting of shareholders is adjourned, it shall not be necessary to give any notice of the adjourned meeting or of the business to be transacted at an adjourned meeting, other than by announcement at the meeting at which the adjournment is taken, unless the board fixes a new record date for the adjourned meeting in which event notice shall be given in accordance with Section 2.03.

SECTION 2.02. NOTICE OF MEETINGS OF BOARD OF DIRECTORS. Notice of a regular meeting of the board of directors need not be given. Notice of every special meeting of the board of directors shall be given to each director by telephone or in writing at least 24 hours (in the case of notice by telephone, telex, TWX or facsimile transmission) or 48 hours (in the case of notice by telegraph, courier service or express mail) or five days (in the case of notice by first class mail) before the time at which the meeting is to be held. Every such notice shall state the time and place of the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the board need be specified in a notice of the meeting.

SECTION 2.03. NOTICE OF MEETINGS OF SHAREHOLDERS.

(a) General Rule. Except as otherwise provided in Section 2.01(b) or in the articles, written notice of every meeting of the shareholders shall be given by, or at the direction of, the secretary or other authorized person to each shareholder of record entitled to vote at the meeting at least (1) ten days prior to the day named for a meeting (and, in case of a meeting called to consider a merger, consolidation, share exchange or division, to each shareholder of record not entitled to vote at the meeting) called to consider a fundamental change under 15 Pa.C.S. Chapter 19 or (2) five days prior to the day named for the meeting in any other case. If the secretary neglects or refuses to give notice of a meeting, the person or persons calling the meeting may do so. In the case of a special meeting of shareholders, the notice shall specify the general nature of the business to be transacted.

(b) Notice of Action by Shareholders on Bylaws. In the case of a meeting of shareholders that has as one of its purposes action on the bylaws, written notice shall be given to each shareholder that the purpose, or one of the purposes, of the meeting is to consider the adoption, amendment or repeal of the bylaws. There shall be included in, or enclosed with, the notice a copy of the proposed amendment or a summary of the changes to be effected thereby.

(c) Notice of Action by Shareholders on Fundamental Change. In the case of a meeting of the shareholders that has as one of its purposes action with respect to any fundamental change under 15 Pa.C.S. Chapter 19, each shareholder shall be given, together with written notice of the meeting, a copy or summary of the amendment or plan to be considered at the meeting in compliance with the provisions of Chapter 19.

(d) Notice of Action by Shareholders Giving Rise to Dissenters Rights. In the case of a meeting of the shareholders that has as one of its purposes action that would give rise to dissenters rights under the provisions of 15 Pa.C.S. Subchapter 15D, each shareholder, to the extent entitled thereto under the Business Corporation Law, shall be given, together with written notice of the meeting:

(1) a statement that the shareholders have a right to dissent and obtain payment of the fair value of their shares by complying with the provisions of Subchapter 15D (relating to dissenters rights); and

(2) a copy of Subchapter 15D.

SECTION 2.04. WAIVER OF NOTICE.

(a) Written Waiver. Whenever any written notice is required to be given under the provisions of the Business Corporation Law, the articles or these bylaws, a waiver thereof in writing, signed by the person or persons entitled to the notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of the notice. Neither the business to be transacted at, nor the purpose of, a meeting need be specified in the waiver of notice of the meeting.

(b) Waiver by Attendance. Attendance of a person at any meeting shall constitute a waiver of notice of the meeting except where a person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting was not lawfully called or convened.

SECTION 2.05. MODIFICATION OF PROPOSAL CONTAINED IN NOTICE. Whenever the language of a proposed resolution is included in a written notice of a meeting required to be given under the provisions of the Business Corporation Law or the articles or these bylaws, the meeting considering the resolution may without further notice adopt it with such clarifying or other amendments as do not enlarge its original purpose.

SECTION 2.06. EXCEPTION TO REQUIREMENT OF NOTICE.

(a) General Rule. Whenever any notice or communication is required to be given to any person under the provisions of the Business Corporation Law or by the articles or these bylaws or by the terms of any agreement or other instrument or as a condition precedent to taking any corporate action and communication with that person is then unlawful, the giving of the notice or communication to that person shall not be required.

(b) Shareholders Without Forwarding Addresses. Notice or other communications need not be sent to any shareholder with whom the corporation has been unable to communicate for more than 24 consecutive months because communications to the shareholder are returned unclaimed or the shareholder has otherwise failed to provide the corporation with a current address. Whenever the shareholder provides the corporation with a current address, the corporation shall commence sending notices and other communications to the shareholder in the same manner as to other shareholders.

SECTION 2.07. USE OF CONFERENCE TELEPHONE AND SIMILAR EQUIPMENT. Any director may participate in any meeting of the board of directors, and the board of directors may provide by resolution with respect to a specific meeting or with respect to a class of meetings that one or more persons may participate in a meeting of the shareholders of the corporation, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation in a meeting pursuant to this section shall constitute presence in person at the meeting.

ARTICLE III

SHAREHOLDERS

SECTION 3.01. PLACE OF MEETING. All meetings of the shareholders of the corporation shall be held at the registered office of the corporation unless another place is designated by the board of directors in the notice of a meeting.

SECTION 3.02. ANNUAL MEETING. The board of directors may fix and designate the date and time of the annual meeting of the shareholders, but if no such date and time is fixed and designated by the board, the meeting for any calendar year shall be held on the first Tuesday in March in such year, if not a legal holiday under the laws of Pennsylvania, and, if a legal holiday, then on the next succeeding business day, not a Saturday, at 10:00 o'clock A.M., and at said meeting the shareholders then entitled to vote shall elect directors and shall transact such other business as may properly be brought before the meeting. If the annual meeting shall not have been called and held within six months after the designated time, any shareholder may call the meeting at any time thereafter.

SECTION 3.03. SPECIAL MEETINGS. Special meetings of the shareholders may be called at any time by the chief executive officer or by resolution of the board of directors, who may fix the date, time and place of the meeting. If the chief executive officer or the board does not fix the date, time or place of the meeting, it shall be the duty of the secretary to do so. A date fixed by the secretary shall not be more than 60 days after the date of the receipt of the request from the chief executive officer or adoption of the resolution of the board calling the special meeting.

SECTION 3.04. QUORUM AND ADJOURNMENT.

(a) General Rule. A meeting of shareholders of the corporation duly called shall not be organized for the transaction of business unless a quorum is present. The presence of shareholders entitled to cast at least a majority of the votes that all shareholders are entitled to cast on a particular matter to be acted upon at the meeting shall constitute a quorum for the purposes of consideration and action on the matter. Shares of the corporation owned, directly or indirectly, by it and controlled, directly or indirectly, by the board of directors of this corporation, as such, shall not be counted in determining the total number of outstanding shares for quorum purposes at any given time.

(b) Withdrawal of a Quorum. The shareholders present at a duly organized meeting can continue to do business until adjournment notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

(c) Adjournments Generally. Any regular or special meeting of the shareholders, including one at which directors are to be elected and one which cannot be organized because a quorum has not attended, may be adjourned for such period and to such place as the shareholders present and entitled to vote shall direct.

(d) Electing Directors at Adjourned Meeting. Those shareholders entitled to vote who attend a meeting called for the election of directors that has been previously adjourned for lack of a quorum, although less than a quorum as fixed in this section, shall nevertheless constitute a quorum for the purpose of electing directors.

(e) Other Action in Absence of Quorum. Those shareholders entitled to vote who attend a meeting of shareholders that has been previously adjourned for one or more periods aggregating at least 15 days because of an absence of a quorum, although less than a quorum as fixed in this section, shall nevertheless constitute a quorum for the purpose of acting upon any matter set forth in the notice of the meeting if the notice states that those shareholders who attend the adjourned meeting shall nevertheless constitute a quorum for the purpose of acting upon the matter.

SECTION 3.05. ACTION BY SHAREHOLDERS. Except as otherwise provided in the Business Corporation Law or the articles or these bylaws, whenever any corporate action is to be taken by vote of the shareholders of the corporation, it shall be authorized upon receiving the affirmative vote of a majority of the votes cast by all shareholders entitled to vote thereon and, if any shareholders are entitled to vote thereon as a class, upon receiving the affirmative vote of a majority of the votes cast by the shareholders entitled to vote as a class. Except when acting by unanimous consent to remove a director or directors, the shareholders of the corporation may act only at a duly organized meeting.

SECTION 3.06. ORGANIZATION. At every meeting of the shareholders, the chairman of the board, if there be one, or, in the case of vacancy in office or absence of the chairman of the board, one of the following persons present in the order stated: the vice chairman of the board, if there be one, the president, the vice presidents in their order of rank and seniority, or a person chosen by vote of the shareholders present, shall act as chairman of the meeting. The secretary or, in the absence of the secretary, an assistant secretary, or, in the absence of both the secretary and assistant secretaries, a person appointed by the chairman of the meeting, shall act as secretary of the meeting.

SECTION 3.07. VOTING RIGHTS OF SHAREHOLDERS. Unless otherwise provided in the articles, every shareholder of the corporation shall be entitled to one vote for every share standing in the name of the shareholder on the books of the corporation.

SECTION 3.08. VOTING AND OTHER ACTION BY PROXY.

(a) General Rule.

(1) Every shareholder entitled to vote at a meeting of shareholders may authorize another person to act for the shareholder by proxy.

(2) The presence of, or vote or other action at a meeting of shareholders by a proxy of a shareholder shall constitute the presence of, or vote or action by the shareholder.

(3) Where two or more proxies of a shareholder are present, the corporation shall, unless otherwise expressly provided in the proxy, accept as the vote of all shares represented thereby the vote cast by a majority of them and, if a majority of the proxies cannot agree whether the shares represented shall be voted or upon the manner of voting the shares, the voting of the shares shall be divided equally among those persons.

(b) Execution and Filing. Every proxy shall be executed in writing by the shareholder or by the duly authorized attorney-in-fact of the shareholder and filed with the secretary of the corporation. A telegram, telex, cablegram, datagram or similar transmission from a shareholder or attorney-in-fact, or a photographic, facsimile or similar reproduction of a writing executed by a shareholder or attorney-in-fact:

(1) may be treated as properly executed for purposes of this subsection; and

(2) shall be so treated if it sets forth a confidential and unique identification number or other mark furnished by the corporation to the shareholder for the purposes of a particular meeting or transaction.

(c) Revocation. A proxy, unless coupled with an interest, shall be revocable at will, notwithstanding any other agreement or any provision in the proxy to the contrary, but the revocation of a proxy shall not be effective until written notice thereof has been given to the secretary of the corporation. An unrevoked proxy shall not be valid after three years from the date of its execution unless a longer time is expressly provided therein. A proxy shall not be revoked by the death or incapacity of the maker unless, before the vote is counted or the authority is exercised, written notice of the death or incapacity is given to the secretary of the corporation.

(d) Expenses. The corporation shall pay the reasonable expenses of solicitation of votes, proxies or consents of shareholders by or on behalf of the board of directors or its nominees for election to the board, including solicitation by professional proxy solicitors and otherwise.

SECTION 3.09. VOTING BY FIDUCIARIES AND PLEDGEEES. Shares of the corporation standing in the name of a trustee or other fiduciary and shares held by an assignee for the benefit of creditors or by a receiver may be voted by the trustee, fiduciary, assignee or receiver. A shareholder whose shares are pledged shall be entitled to vote the shares until the shares have been transferred into

the name of the pledgee, or a nominee of the pledgee, but nothing in this section shall affect the validity of a proxy given to a pledgee or nominee.

SECTION 3.10. VOTING BY JOINT HOLDERS OF SHARES.

(a) General Rule. Where shares of the corporation are held jointly or as tenants in common by two or more persons, as fiduciaries or otherwise:

(1) if only one or more of such persons is present in person or by proxy, all of the shares standing in the names of such persons shall be deemed to be represented for the purpose of determining a quorum and the corporation shall accept as the vote of all the shares the vote cast by a joint owner or a majority of them; and

(2) if the persons are equally divided upon whether the shares held by them shall be voted or upon the manner of voting the shares, the voting of the shares shall be divided equally among the persons without prejudice to the rights of the joint owners or the beneficial owners thereof among themselves.

(b) Exception. If there has been filed with the secretary of the corporation a copy, certified by an attorney at law to be correct, of the relevant portions of the agreement under which the shares are held or the instrument by which the trust or estate was created or the order of court appointing them or of an order of court directing the voting of the shares, the persons specified as having such voting power in the document latest in date of operative effect so filed, and only those persons, shall be entitled to vote the shares but only in accordance therewith.

SECTION 3.11. VOTING BY CORPORATIONS.

(a) Voting by Corporate Shareholders. Any corporation that is a shareholder of this corporation may vote at meetings of shareholders of this corporation by any of its officers or agents, or by proxy appointed by any officer or agent, unless some other person, by resolution of the board of directors of the other corporation or a provision of its articles or bylaws, a copy of which resolution or provision certified to be correct by one of its officers has been filed with the secretary of this corporation, is appointed its general or special proxy in which case that person shall be entitled to vote the shares.

(b) Controlled Shares. Shares of this corporation owned, directly or indirectly, by it and controlled, directly or indirectly, by the board of directors of this corporation, as such, shall not be voted at any meeting and shall not be counted in determining the total number of outstanding shares for voting purposes at any given time.

SECTION 3.12. DETERMINATION OF SHAREHOLDERS OF RECORD.

(a) Fixing Record Date. The board of directors may fix a time prior to the date of any meeting of shareholders as a record date for the determination of the shareholders entitled to notice of, or to vote at, the meeting, which time, except in the case of an adjourned meeting, shall be not more than 90 days prior to the date of the meeting of shareholders. Only shareholders of record on the date fixed shall be so entitled notwithstanding any transfer of shares on the books of the corporation after any record date fixed as provided in this subsection. The board of directors may similarly fix a record date for the determination of shareholders of record for any other purpose. When a determination of shareholders of record has been made as provided in this section for purposes of a meeting, the determination shall apply to any adjournment thereof unless the board fixes a new record date for the adjourned meeting.

(b) Determination When a Record Date is Not Fixed. If a record date is not fixed:

(1) The record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the day next preceding the day on which notice is given.

(2) The record date for determining shareholders for any other purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

(c) Certification by Nominee. The board of directors may adopt a procedure whereby a shareholder of the corporation may certify in writing to the corporation that all or a portion of the shares registered in the name of the shareholder are held for the account of a specified person or persons. Upon receipt by the corporation of a certification complying with the procedure, the persons specified in the certification shall be deemed, for the purposes set forth in the certification, to be the holders of record of the number of shares specified in place of the shareholder making the certification.

SECTION 3.13. VOTING LISTS.

(a) General Rule. The officer or agent having charge of the transfer books for shares of the corporation shall make a complete list of the shareholders entitled to vote at any meeting of shareholders, arranged in alphabetical order, with the address of and the number of shares held by each. The list shall be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting for the purposes thereof except that, if the corporation has 5,000 or more shareholders, in lieu of the making of the list the corporation may make the information therein available at the meeting by any other means.

(b) Effect of List. Failure to comply with the requirements of this section shall not affect the validity of any action taken at a meeting prior to a demand at the meeting by any shareholder entitled to vote thereat to examine the list. The original share register or transfer book, or a duplicate thereof kept in the Commonwealth of Pennsylvania, shall be prima facie evidence as to who are the shareholders entitled to examine the list or share register or transfer book or to vote at any meeting of shareholders.

SECTION 3.14. JUDGES OF ELECTION.

(a) Appointment. In advance of any meeting of shareholders of the corporation, the board of directors may appoint judges of election, who need not be shareholders, to act at the meeting or any adjournment thereof. If judges of election are not so appointed, the presiding officer of the meeting may, and on the request of any shareholder shall, appoint judges of election at the meeting. The number of judges shall be one or three. A person who is a candidate for an office to be filled at the meeting shall not act as a judge.

(b) Vacancies. In case any person appointed as a judge fails to appear or fails or refuses to act, the vacancy may be filled by appointment made by the board of directors in advance of the convening of the meeting or at the meeting by the presiding officer thereof.

(c) Duties. The judges of election shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, and the authenticity, validity and effect of proxies, receive votes or ballots, hear and determine all challenges and questions in any way arising in connection with nominations by shareholders or the right to vote, count and tabulate all votes, determine the result and do such acts as may be proper to conduct the election or vote with fairness to all shareholders. The judges of election shall perform their duties impartially, in good faith, to the best of their ability and as expeditiously as is practical. If there are three judges of election, the decision, act or certificate of a majority shall be effective in all respects as the decision, act or certificate of all.

(d) Report. On request of the presiding officer of the meeting or of any shareholder, the judges shall make a report in writing of any challenge or question or matter determined by them, and execute a certificate of any fact found by them. Any report or certificate made by them shall be prima facie evidence of the facts stated therein.

SECTION 3.15. MINORS AS SECURITY HOLDERS. The corporation may treat a minor who holds shares or obligations of the corporation as having capacity to receive and to empower others to receive dividends, interest, principal and other payments or distributions, to vote or express consent or dissent and to make elections and exercise rights relating to such shares or obligations unless, in the case of payments or distributions on shares, the corporate officer responsible for maintaining the list of shareholders or the transfer agent of the corporation or, in the case of payments or distributions on obligations, the treasurer or paying officer or agent has received written notice that the holder is a minor.

ARTICLE IV

BOARD OF DIRECTORS

SECTION 4.01. POWERS; PERSONAL LIABILITY.

(a) General Rule. Unless otherwise provided by statute, all powers vested by law in the corporation shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under the direction of, the board of directors.

(b) Personal Liability of Directors.

(1) A director shall not be personally liable, as such, for monetary damages (including, without limitation, any judgment, amount paid in settlement, penalty, punitive damages or expense of any nature (including, without limitation, attorneys' fees and disbursements)) for any action taken, or any failure to take any action, unless:

(i) the director has breached or failed to perform the duties of his or her office under Subchapter 17B of the Business Corporation Law or any successor provision; and

(ii) the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness.

(2) The provisions of paragraph (1) shall not apply to the re-sponsibility or liability of a director pursuant to any criminal statute, or the liability of a director for the payment of taxes pursuant to local, State or Federal law.

(The provisions of this subsection (b) were first adopted by the shareholders of the corporation on December 20, 1991.)

(c) Notation of Dissent. A director of the corporation who is present at a meeting of the board of directors, or of a committee of the board, at which action on any corporate matter is taken on which the director is generally competent to act, shall be presumed to have assented to the action taken unless his or her dissent is entered in the minutes of the meeting or unless the director files his or her written dissent to the action with the secretary of the meeting before the adjournment thereof or transmits the dissent in writing to the secretary of the corporation immediately after the adjournment of the meeting. The right to dissent shall not apply to a director who voted in favor of the action. Nothing in this section shall bar a director from asserting that minutes of the meeting incorrectly omitted his or her dissent if, promptly upon receipt of a copy of such minutes, the director notifies the secretary, in writing, of the asserted omission or inaccuracy.

SECTION 4.02. QUALIFICATIONS AND SELECTION OF DIRECTORS.

(a) Qualifications. Each director of the corporation shall be a natural person of full age, provided that no person of age 70 years or more shall be eligible for election as a director. Directors need not be residents of the Commonwealth of Pennsylvania or shareholders of the corporation.

(b) Notice of Certain Nominations Required. Nominations for election of directors may be made by any shareholder entitled to vote for the election of directors if written notice (the "Notice") of the shareholder's intent to nominate a director at the meeting is given by the shareholder and received by the secretary of the corporation in the manner and within the time specified in this section. The initial Notice shall be delivered to the secretary of the corporation not less than 45 days prior to the anniversary of the mailing date of the corporation's proxy statement for its previous meeting of the shareholders called for the election of directors. In lieu of delivery to the secretary, the Notice may be mailed to the secretary by certified mail, return

receipt requested, but shall be deemed to have been given only upon actual receipt by the secretary. The requirements of this subsection shall not apply to a nomination for directors made to the shareholders by the board of directors.

(c) Contents of Notice. The Notice shall be in writing and shall contain or be accompanied by:

(1) the name and residence address of the nominating shareholder;

(2) a representation that the shareholder is a holder of record of voting stock of the corporation and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the Notice;

(3) such information regarding each nominee as would have been required to be included in a proxy statement filed pursuant to Regulation 14A of the rules and regulations established by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (or pursuant to any successor act or regulation) had proxies been solicited with respect to such nominee by the management or board of directors of the corporation;

(4) a description of all arrangements or understandings among the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; and

(5) the consent of each nominee to serve as a director of the corporation if so elected.

(d) Determination of Compliance. If a judge or judges of election shall not have been appointed pursuant to these bylaws, the presiding officer of the meeting may, if the facts warrant, determine and declare to the meeting that any nomination made at the meeting was not made in accordance with the procedures of this section and, in such event, the nomination shall be disregarded. Any decision by the presiding officer of the meeting made in good faith shall be conclusive and binding upon all shareholders of the corporation for any purpose.

(e) Election of Directors. In elections for directors, voting need not be by ballot, unless required by vote of the shareholders before the voting for the election of directors begins. The candidates receiving the highest number of votes from each class or group of classes, if any, entitled to elect directors separately up to the number of directors to be elected by the class or group of classes shall be elected. If at any meeting of shareholders, directors of more than one class are to be elected, each class of directors shall be elected in a separate election.

SECTION 4.03. NUMBER AND TERM OF OFFICE.

(a) Number. The board of directors shall consist of such number of directors, as may be determined from time to time by resolution of the board of directors.

(b) Term of Office. Each director shall hold office until the expiration of the term for which he or she was selected and until a successor has been selected and qualified or until his or

her earlier death, resignation or removal. A decrease in the number of directors shall not have the effect of shortening the term of any incumbent director.

(c) Resignation. Any director may resign at any time upon written notice to the corporation. The resignation shall be effective upon receipt thereof by the corporation or at such subsequent time as shall be specified in the notice of resignation.

SECTION 4.04. VACANCIES.

(a) General Rule. Vacancies in the board of directors, including vacancies resulting from an increase in the number of directors, may be filled by a majority vote of the remaining members of the board though less than a quorum, or by a sole remaining director, and each person so selected shall be a director to serve until the next selection of the class for which such director has been chosen, and until a successor has been selected and qualified or until his or her earlier death, resignation or removal.

(b) Action by Resigned Directors. When one or more directors resign from the board effective at a future date, the directors then in office, including those who have so resigned, shall have power by the applicable vote to fill the vacancies, the vote thereon to take effect when the resignations become effective.

SECTION 4.05. REMOVAL OF DIRECTORS.

(a) Removal by the Shareholders. The entire board of directors, or any class of the board, or any individual director may be removed from office by vote of the shareholders entitled to vote thereon only for cause. In case the board or a class of the board or any one or more directors are so removed, new directors may be elected at the same meeting. The repeal of a provision of the articles or bylaws prohibiting, or the addition of a provision to the articles or bylaws permitting, the removal by the shareholders of the board, a class of the board or a director without assigning any cause shall not apply to any incumbent director during the balance of the term for which the director was selected.

(b) Removal by the Board. The board of directors may declare vacant the office of a director who has been judicially declared of unsound mind or who has been convicted of an offense punishable by imprisonment for a term of more than one year or if, within 60 days after notice of his or her selection, the director does not accept the office either in writing or by attending a meeting of the board of directors.

SECTION 4.06. PLACE OF MEETINGS. Meetings of the board of directors may be held at such place within or without the Commonwealth of Pennsylvania as the board of directors may from time to time appoint or as may be designated in the notice of the meeting.

SECTION 4.07. ORGANIZATION OF MEETINGS. At every meeting of the board of directors, the chairman of the board, if there be one, or, in the case of a vacancy in the office or absence of the chairman of the board, one of the following officers present in the order stated: the vice chairman of the board, if there be one, the president, the vice presidents in their order of rank and seniority, or a person chosen by a majority of the directors present, shall act as chairman of the meeting.

The secretary or, in the absence of the secretary, an assistant secretary, or, in the absence of the secretary and the assistant secretaries, any person appointed by the chairman of the meeting, shall act as secretary of the meeting.

SECTION 4.08. REGULAR MEETINGS. Regular meetings of the board of directors shall be held at such time and place as shall be designated from time to time by resolution of the board of directors.

SECTION 4.09. SPECIAL MEETINGS. Special meetings of the board of directors shall be held whenever called by the chief executive officer or by two or more of the directors.

SECTION 4.10. QUORUM OF AND ACTION BY DIRECTORS.

(a) General Rule. A majority of the directors in office of the corporation shall be necessary to constitute a quorum for the transaction of business and the acts of a majority of the directors present and voting at a meeting at which a quorum is present shall be the acts of the board of directors.

(b) Action by Written Consent. Any action required or permitted to be taken at a meeting of the directors may be taken without a meeting if, prior or subsequent to the action, a consent or consents thereto by all of the directors in office is filed with the secretary of the corporation.

(c) Notation of Dissent. A director who is present at a meeting of the board of directors, or of a committee of the board, at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his or her dissent is entered in the minutes of the meeting or unless the director files a written dissent to the action with the secretary of the meeting before the adjournment thereof or transmits the dissent in writing to the secretary of the corporation immediately after the adjournment of the meeting. The right to dissent shall not apply to a director who voted in favor of the action. Nothing in this section shall bar a director from asserting that minutes of the meeting incorrectly omitted his or her dissent if, promptly upon receipt of a copy of such minutes, the director notifies the secretary, in writing, of the asserted omission or inaccuracy.

SECTION 4.11. EXECUTIVE AND OTHER COMMITTEES.

(a) Establishment and Powers. The board of directors may, by resolution adopted by a majority of the directors in office, establish one or more committees to consist of one or more directors of the corporation. Any committee, to the extent provided in the resolution of the board of directors, shall have and may exercise all of the powers and authority of the board of directors except that a committee shall not have any power or authority as to the following:

(1) The submission to shareholders of any action requiring approval of shareholders under the Business Corporation Law.

(2) The creation or filling of vacancies in the board of directors.

(3) The adoption, amendment or repeal of these bylaws.

(4) The amendment or repeal of any resolution of the board that by its terms is amendable or repealable only by the board.

(5) Action on matters committed by a resolution of the board of directors to another committee of the board.

(b) Alternate Committee Members. The board may designate one or more directors as alternate members of any committee who may replace any absent or disqualified member at any meeting of the committee or for the purposes of any written action by the committee. In the absence or disqualification of a member and alternate member or members of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint another director to act at the meeting in the place of the absent or disqualified member.

(c) Term. Each committee of the board shall serve at the pleasure of the board.

(d) Committee Procedures. The term "board of directors" or "board," when used in any provision of these bylaws relating to the organization or procedures of or the manner of taking action by the board of directors, shall be construed to include and refer to any executive or other committee of the board.

SECTION 4.12. COMPENSATION. The board of directors shall have the authority to fix the compensation of directors for their services as directors and a director may be a salaried officer of the corporation.

ARTICLE V

OFFICERS

SECTION 5.01. OFFICERS GENERALLY.

(a) Number, Qualifications and Designation. The officers of the corporation shall be a president, one or more vice presidents, a secretary, a treasurer, and such other officers as may be elected in accordance with the provisions of Section 5.03. Officers may but need not be directors or shareholders of the corporation. The president and secretary shall be natural persons of full age. The treasurer may be a corporation, but if a natural person shall be of full age. The board of directors may elect from among the members of the board a chairman of the board and a vice chairman of the board who may be officers of the corporation. Any number of offices may be held by the same person.

(b) Bonding. The corporation may secure the fidelity of any or all of its officers by bond or otherwise.

(c) Standard of Care. In lieu of the standards of conduct otherwise provided by law, officers of the corporation shall be subject to the same standards of conduct, including standards

of care and loyalty and rights of justifiable reliance, as shall at the time be applicable to directors of the corporation. An officer of the corporation shall not be personally liable, as such, to the corporation or its shareholders for monetary damages (including, without limitation, any judgment, amount paid in settlement, penalty, punitive damages or expense of any nature (including, without limitation, attorneys' fees and disbursements)) for any action taken, or any failure to take any action, unless the officer has breached or failed to perform the duties of his or her office under the articles of incorporation, these bylaws, or the applicable provisions of law and the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness. The provisions of this subsection shall not apply to the responsibility or liability of an officer pursuant to any criminal statute or for the payment of taxes pursuant to local, state or federal law.

SECTION 5.02. ELECTION, TERM OF OFFICE AND RESIGNATIONS.

(a) Election and Term of Office. The officers of the corporation (except those elected by delegated authority pursuant to Section 5.03 or filled pursuant to Section 5.05) shall be elected annually by the board of directors, and each such officer shall hold office for a term of one year and until a successor has been selected and qualified or until his or her earlier death, resignation or removal.

(b) Resignations. Any officer may resign at any time upon written notice to the corporation. The resignation shall be effective upon receipt thereof by the corporation or at such subsequent time as may be specified in the notice of resignation.

SECTION 5.03. SUBORDINATE OFFICERS, COMMITTEES AND AGENTS. The board of directors may from time to time elect such other officers and appoint such committees, employees or other agents as the business of the corporation may require, including one or more assistant secretaries, and one or more assistant treasurers, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these bylaws, or as the board of directors may from time to time determine. The board of directors may delegate to any officer or committee the power to elect subordinate officers and to retain or appoint employees or other agents, or committees thereof, and to prescribe the authority and duties of such subordinate officers, committees, employees or other agents.

SECTION 5.04. REMOVAL OF OFFICERS AND AGENTS. Any officer or agent of the corporation may be removed by the board of directors with or without cause. The removal shall be without prejudice to the contract rights, if any, of any person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

SECTION 5.05. VACANCIES. A vacancy in any office because of death, resignation, removal, disqualification, or any other cause, may be filled by the board of directors or the board of directors may delegate to any officer or committee the power to fill a vacancy in such office or to create a new such office, subject to ratification by the board of directors, and if the office is one for which these bylaws prescribe a term, shall be filled for the unexpired portion of the term.

SECTION 5.06. AUTHORITY.

(a) General Rule. All officers of the corporation, as between themselves and the corporation, shall have such authority and perform such duties in the management of the corporation as may be provided by or pursuant to resolutions or orders of the board of directors or, in the absence of controlling provisions in the resolutions or orders of the board of directors, as may be determined by or pursuant to these bylaws.

(b) Chief Executive Officer. The chairman of the board or the president, as designated from time to time by the board of directors, shall be the chief executive officer of the corporation.

SECTION 5.07. THE CHAIRMAN AND VICE CHAIRMAN OF THE BOARD. The chairman of the board or in the absence of the chairman, the vice chairman of the board, shall preside at all meetings of the shareholders and of the board of directors, and shall perform such other duties as may from time to time be requested by the board of directors.

SECTION 5.08. THE CHIEF EXECUTIVE OFFICER. The chief executive officer shall be the chief executive officer of the corporation and shall have general supervision over the business of the corporation. The chief executive officer shall have the general powers and shall perform the duties which by law and general usage appertain to the office, subject, however, to the control of the board of directors. The chief executive officer shall sign, execute and acknowledge, in the name of the corporation, deeds, mortgages, bonds, contracts and other instruments authorized by the board of directors, except in cases where the signing and execution thereof shall be expressly delegated by the board of directors, or by these bylaws, to some other officer or agent of the corporation.

SECTION 5.09. THE PRESIDENT. The president shall perform such duties as from time to time may be assigned by the board of directors or the chief executive officer (unless the president shall be the chief executive officer, in which case the president's duties shall be those specified in Section 5.08).

SECTION 5.10. THE VICE PRESIDENTS. The vice presidents shall perform the duties of the president in the absence of the president and such other duties as may from time to time be assigned to them by the board of directors or the president.

SECTION 5.11. THE SECRETARY. The secretary or an assistant secretary shall attend all meetings of the shareholders and of the board of directors and all committees thereof and shall record all the votes of the shareholders and of the directors and the minutes of the meetings of the shareholders and of the board of directors and of committees of the board in a book or books to be kept for that purpose; shall see that notices are given and records and reports properly kept and filed by the corporation as required by law; shall be the custodian of the seal of the corporation and see that it is affixed to all documents to be executed on behalf of the corporation under its seal; and, in general, shall perform all duties incident to the office of secretary, and such other duties as may from time to time be assigned by the board of directors or the president.

SECTION 5.12. THE TREASURER. The treasurer or an assistant treasurer shall have or provide for the custody of the funds or other property of the corporation; shall collect and receive or provide for the collection and receipt of moneys earned by or in any manner due to or received by the corporation; shall deposit all funds in his or her custody as treasurer in such banks or other places of deposit as the board of directors may from time to time designate; shall, whenever so required by the board of directors, render an account showing all transactions as treasurer, and the financial condition of the corporation; and, in general, shall discharge such other duties as may from time to time be assigned by the board of directors or the president.

SECTION 5.13. SALARIES. The salaries of the officers elected by the board of directors shall be fixed from time to time by the board of directors or by such officer as may be designated by resolution of the board. The salaries or other compensation of any other officers, employees and other agents shall be fixed from time to time by the officer or committee to which the power to elect such officers or to retain or appoint such employees or other agents has been delegated pursuant to Section 5.03. No officer shall be prevented from receiving such salary or other compensation by reason of the fact that the officer is also a director of the corporation.

ARTICLE VI

CERTIFICATES OF STOCK, TRANSFER, ETC.

SECTION 6.01. SHARE CERTIFICATES.

(a) Form of Certificates. Certificates for shares of the corporation shall be in such form as approved by the board of directors, and shall state that the corporation is incorporated under the laws of the Commonwealth of Pennsylvania, the name of the person to whom issued, and the number and class of shares and the designation of the series (if any) that the certificate represents. If the corporation is authorized to issue shares of more than one class or series, certificates for shares of the corporation shall set forth upon the face or back of the certificate (or shall state on the face or back of the certificate that the corporation will furnish to any shareholder upon request and without charge), a full or summary statement of the designations, voting rights, preferences, limitations and special rights of the shares of each class or series authorized to be issued so far as they have been fixed and determined and the authority of the board of directors to fix and determine the designations, voting rights, preferences, limitations and special rights of the classes and series of shares of the corporation.

(b) Share Register. The share register or transfer books and blank share certificates shall be kept by the secretary or by any transfer agent or registrar designated by the board of directors for that purpose.

SECTION 6.02. ISSUANCE. The share certificates of the corporation shall be numbered and registered in the share register or transfer books of the corporation as they are issued. They shall be executed in such manner as the board of directors shall determine. Where a certificate is signed by a transfer agent or a registrar, the signature of any corporate officer upon the certificate may be a facsimile, engraved or printed. In case any officer who has signed, or whose facsimile signature has been placed upon, any share certificate shall have ceased to be such officer because of death, resignation or otherwise, before the certificate is issued, it may be issued with the same

effect as if the officer had not ceased to be such at the date of its issue. The provisions of this Section 6.02 shall be subject to any inconsistent or contrary agreement in effect at the time between the corporation and any transfer agent or registrar.

SECTION 6.03. TRANSFER. Transfers of shares shall be made on the share register or transfer books of the corporation upon surrender of the certificate therefor, endorsed by the person named in the certificate or by an attorney lawfully constituted in writing. No transfer shall be made inconsistent with the provisions of the Uniform Commercial Code, 13 Pa.C.S. (S)(S)8101 et seq., and its amendments and supplements.

SECTION 6.04. RECORD HOLDER OF SHARES. The corporation shall be entitled to treat the person in whose name any share or shares of the corporation stand on the books of the corporation as the absolute owner thereof, and shall not be bound to recognize any equitable or other claim to, or interest in, such share or shares on the part of any other person.

SECTION 6.05. LOST, DESTROYED OR MUTILATED CERTIFICATES. The holder of any shares of the corporation shall immediately notify the corporation of any loss, destruction or mutilation of the certificate therefor, and the board of directors may, in its discretion, cause a new certificate or certificates to be issued to such holder, in case of mutilation of the certificate, upon the surrender of the mutilated certificate or, in case of loss or destruction of the certificate, upon satisfactory proof of such loss or destruction and, if the board of directors shall so determine, the deposit of a bond in such form and in such sum, and with such surety or sureties, as it may direct.

ARTICLE VII

INDEMNIFICATION OF DIRECTORS, OFFICERS AND OTHER AUTHORIZED REPRESENTATIVES

(The provisions of this Article VII were first adopted by the shareholders of the corporation on December 20, 1991.)

SECTION 7.01. SCOPE OF INDEMNIFICATION.

(a) General Rule. The corporation shall indemnify an indemnified representative against any liability incurred in connection with any proceeding in which the indemnified representative may be involved as a party or otherwise by reason of the fact that such person is or was serving in an indemnified capacity, including, without limitation, liabilities resulting from any actual or alleged breach or neglect of duty, error, misstatement or misleading statement, negligence, gross negligence or act giving rise to strict or products liability, except:

(1) where such indemnification is expressly prohibited by applicable law;

(2) where the conduct of the indemnified representative has been finally determined pursuant to Section 7.06 or otherwise:

(i) to constitute willful misconduct or recklessness within the meaning of 15 Pa.C.S. (S)1746(b) or any superseding provision of law sufficient in the circumstances to bar indemnification against liabilities arising from the conduct; or

(ii) to be based upon or attributable to the receipt by the indemnified representative from the corporation of a personal benefit to which the indemnified representative is not legally entitled; or

(3) to the extent such indemnification has been finally determined in a final adjudication pursuant to Section 7.06 to be otherwise unlawful.

(b) Partial Payment. If an indemnified representative is entitled to indemnification in respect of a portion, but not all, of any liabilities to which such person may be subject, the corporation shall indemnify such indemnified representative to the maximum extent for such portion of the liabilities.

(c) Presumption. The termination of a proceeding by judgment, order, settlement or conviction or upon a plea of nolo contendere or its equivalent shall not of itself create a presumption that the indemnified representative is not entitled to indemnification.

(d) Definitions. For purposes of this Article:

(1) "indemnified capacity" means any and all past, present and future service by an indemnified representative in one or more capacities as a director, officer, employee or agent of the corporation, or, at the request of the corporation, as a director, officer, employee, agent, fiduciary or trustee of another corporation, partnership, joint venture, trust, employee benefit plan or other entity or enterprise;

(2) "indemnified representative" means any and all directors and officers of the corporation and any other person designated as an indemnified representative by the board of directors of the corporation (which may, but need not, include any person serving at the request of the corporation, as a director, officer, employee, agent, fiduciary or trustee of another corporation, partnership, joint venture, trust, employee benefit plan or other entity or enterprise);

(3) "liability" means any damage, judgment, amount paid in settlement, fine, penalty, punitive damages, excise tax assessed with respect to an employee benefit plan, or cost or expense of any nature (including, without limitation, attorneys' fees and disbursements); and

(4) "proceeding" means any threatened, pending or completed action, suit, appeal or other proceeding of any nature, whether civil, criminal, administrative or investigative, whether formal or informal, and whether brought by or in the right of the corporation, a class of its security holders or otherwise.

SECTION 7.02. PROCEEDINGS INITIATED BY INDEMNIFIED REPRESENTATIVES. Notwithstanding any other provision of this Article, the corporation shall not indemnify under this Article an indemnified representative for any liability incurred in a proceeding initiated (which shall not be deemed to include counter claims or affirmative defenses) or participated in as an intervenor or

amicus curiae by the person seeking indemnification unless such initiation of or participation in the proceeding is authorized, either before or after its commencement, by the affirmative vote of a majority of the directors in office. This section does not apply to reimbursement of expenses incurred in successfully prosecuting or defending an arbitration under Section 7.06 or otherwise successfully prosecuting or defending the rights of an indemnified representative granted by or pursuant to this Article.

SECTION 7.03. ADVANCING EXPENSES. The corporation shall pay the expenses (including attorneys' fees and disbursements) incurred in good faith by an indemnified representative in advance of the final disposition of a proceeding described in Section 7.01 or the initiation of or participation in which is authorized pursuant to Section 7.02 upon receipt of an undertaking by or on behalf of the indemnified representative to repay the amount if it is ultimately determined pursuant to Section 7.06 that such person is not entitled to be indemnified by the corporation pursuant to this Article. The financial ability of an indemnified representative to repay an advance shall not be a prerequisite to the making of such advance.

SECTION 7.04. SECURING OF INDEMNIFICATION OBLIGATIONS. To further effect, satisfy or secure the indemnification obligations provided herein or otherwise, the corporation may maintain insurance, obtain a letter of credit, act as self-insurer, create a reserve, trust, escrow, cash collateral or other fund or account, enter into indemnification agreements, pledge or grant a security interest in any assets or properties of the corporation, or use any other mechanism or arrangement whatsoever in such amounts, at such costs, and upon such other terms and conditions as the board of directors shall deem appropriate. Absent fraud, the determination of the board of directors with respect to such amounts, costs, terms and conditions shall be conclusive against all security holders, officers and directors and shall not be subject to voidability.

SECTION 7.05. PAYMENT OF INDEMNIFICATION. An indemnified representative shall be entitled to indemnification within 30 days after a written request for indemnification has been delivered to the secretary of the corporation.

SECTION 7.06. ARBITRATION.

(a) General Rule. Any dispute related to the right to indemnification, contribution or advancement of expenses as provided under this Article, except with respect to indemnification for liabilities arising under the Securities Act of 1933 that the corporation has undertaken to submit to a court for adjudication, shall be decided only by arbitration in the county in which the principal executive offices of the corporation are located at the time, in accordance with the commercial arbitration rules then in effect of the American Arbitration Association, before a panel of three arbitrators, one of whom shall be selected by the corporation, the second of whom shall be selected by the indemnified representative and the third of whom shall be selected by the other two arbitrators. In the absence of the American Arbitration Association, or if for any reason arbitration under the arbitration rules of the American Arbitration Association cannot be initiated, and if one of the parties fails or refuses to select an arbitrator or the arbitrators selected by the corporation and the indemnified representative cannot agree on the selection of the third arbitrator within 30 days after such time as the corporation and the indemnified representative have each been notified of the selection of the other's arbitrator, the necessary arbitrator or arbitrators shall be selected by the presiding judge of the court of general jurisdiction in such county.

(b) Qualifications of Arbitrators. Each arbitrator selected as provided herein is required to be or have been a director or executive officer of a corporation whose shares of common stock were listed during at least one year of such service on the New York Stock Exchange or the American Stock Exchange or quoted on the National Association of Securities Dealers Automated Quotations System.

(c) Burden of Proof. The party or parties challenging the right of an indemnified representative to the benefits of this Article shall have the burden of proof.

(d) Expenses. The corporation shall reimburse an indemnified representative for the expenses (including attorneys' fees and disbursements) incurred in successfully prosecuting or defending such arbitration.

(e) Effect. Any award entered by the arbitrators shall be final, binding and nonappealable and judgment may be entered thereon by any party in accordance with applicable law in any court of competent jurisdiction, except that the corporation shall be entitled to interpose as a defense in any such judicial enforcement proceeding any prior final judicial determination adverse to the indemnified representative under Section 7.01(a)(2) in a proceeding not directly involving indemnification under this Article. This arbitration provision shall be specifically enforceable.

SECTION 7.07. CONTRIBUTION. If the indemnification provided for in this Article or otherwise is unavailable for any reason in respect of any liability or portion thereof, the corporation shall contribute to the liabilities to which the indemnified representative may be subject in such proportion as is appropriate to reflect the intent of this Article or otherwise.

SECTION 7.08. MANDATORY INDEMNIFICATION OF DIRECTORS, OFFICERS, ETC. To the extent that an authorized representative of the corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Sections 1741 or 1742 of the Business Corporation Law or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees and disbursements) actually and reasonably incurred by such person in connection therewith.

SECTION 7.09. CONTRACT RIGHTS; AMENDMENT OR REPEAL. All rights under this Article shall be deemed a contract between the corporation and the indemnified representative pursuant to which the corporation and each indemnified representative intend to be legally bound. Any repeal, amendment or modification hereof shall be prospective only and shall not affect any rights or obligations then existing.

SECTION 7.10. SCOPE OF ARTICLE. The rights granted by this Article shall not be deemed exclusive of any other rights to which those seeking indemnification, contribution or advancement of expenses may be entitled under any statute, agreement, vote of shareholders or disinterested directors or otherwise, both as to action in an indemnified capacity and as to action in any other capacity. The indemnification, contribution and advancement of expenses provided by or granted pursuant to this Article shall continue as to a person who has ceased to be an indemnified

representative in respect of matters arising prior to such time, and shall inure to the benefit of the heirs, executors, administrators and personal representatives of such a person.

SECTION 7.11. RELIANCE ON PROVISIONS. Each person who shall act as an indemnified representative of the corporation shall be deemed to be doing so in reliance upon the rights of indemnification, contribution and advancement of expenses provided by this Article.

SECTION 7.12. INTERPRETATION. The provisions of this Article are intended to constitute bylaws authorized by 15 Pa.C.S. (S)1746.

ARTICLE VIII

MISCELLANEOUS

SECTION 8.01. CORPORATE SEAL. The corporation shall have a corporate seal in the form of a circle containing the name of the corporation, the year of incorporation and such other details as may be approved by the board of directors. The affixation of the corporate seal shall not be necessary to the valid execution, assignment or endorsement by the corporation of any instrument or other document.

SECTION 8.02. CHECKS. All checks, notes, bills of exchange or other similar orders in writing shall be signed by such one or more officers or employees of the corporation as the board of directors may from time to time designate.

SECTION 8.03. CONTRACTS. Except as otherwise provided in the Business Corporation Law in the case of transactions that require action by the shareholders, the board of directors may authorize any officer or agent to enter into any contract or to execute or deliver any instrument on behalf of the corporation, and such authority may be general or confined to specific instances.

SECTION 8.04. INTERESTED DIRECTORS OR OFFICERS; QUORUM.

(a) General Rule. A contract or transaction between the corporation and one or more of its directors or officers or between the corporation and another corporation, partnership, joint venture, trust or other enterprise in which one or more of its directors or officers are directors or officers or have a financial or other interest, shall not be void or voidable solely for that reason, or solely because the director or officer is present at or participates in the meeting of the board of directors that authorizes the contract or transaction, or solely because his, her or their votes are counted for that purpose, if:

(1) the material facts as to the relationship or interest and as to the contract or transaction are disclosed or are known to the board of directors and the board authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors even though the disinterested directors are less than a quorum;

(2) the material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the shareholders entitled to vote thereon and the contract or transaction is specifically approved in good faith by vote of those shareholders; or

(3) the contract or transaction is fair as to the corporation as of the time it is authorized, approved or ratified by the board of directors or the shareholders.

(b) Quorum. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the board which authorizes a contract or transaction specified in subsection (a).

SECTION 8.05. DEPOSITS. All funds of the corporation shall be deposited from time to time to the credit of the corporation in such banks, trust companies or other depositories as the board of directors may approve or designate, and all such funds shall be withdrawn only upon checks signed by such one or more officers or employees of the corporation as the board of directors shall from time to time designate.

SECTION 8.06. CORPORATE RECORDS.

(a) Required Records. The corporation shall keep complete and accurate books and records of account, minutes of the proceedings of the incorporators, shareholders and directors and a share register giving the names and addresses of all shareholders and the number and class of shares held by each. The share register shall be kept at either the registered office of the corporation in the Commonwealth of Pennsylvania or at its principal place of business wherever situated or at the office of its registrar or transfer agent. Any books, minutes or other records may be in written form or any other form capable of being converted into written form within a reasonable time.

(b) Right of Inspection. Every shareholder shall, upon written verified demand stating the purpose thereof, have a right to examine, in person or by agent or attorney, during the usual hours for business for any proper purpose, the share register, books and records of account, and records of the proceedings of the incorporators, shareholders and directors and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to the interest of the person as a shareholder. In every instance where an attorney or other agent is the person who seeks the right of inspection, the demand shall be accompanied by a verified power of attorney or other writing that authorizes the attorney or other agent to so act on behalf of the shareholder. The demand shall be directed to the corporation at its registered office in the Commonwealth of Pennsylvania or at its principal place of business wherever situated.

SECTION 8.07. AMENDMENT OF BYLAWS. Except as otherwise provided in the express terms of any series of the shares of the corporation:

(a) The shareholders shall have the power to amend or repeal these bylaws, or to adopt new bylaws, only with the approval of the board of directors. A direction by the board that a shareholder proposal with respect to the bylaws shall be submitted to the shareholders for action thereon, or the sufferance by the board that such a proposal shall be so submitted, shall not constitute approval by the board of directors of the amendment, repeal or new bylaws.

(b) These bylaws may be amended or repealed, or new bylaws may be adopted, by vote of a majority of the board of directors of the corporation in office at any regular or special meeting of directors, including in circumstances otherwise reserved by statute exclusively to the shareholders, the board of directors of the corporation having under the articles of incorporation the full authority conferred by law upon the shareholders of the corporation to adopt, amend or repeal these bylaws. Any bylaw adopted by the board of directors under this paragraph shall be consistent with the articles of incorporation.

As amended through October 27, 1998.

FINANCIAL REVIEW

[PICTURE ANTHONY J. MENDICINO]

Anthony J. Mendicino
Vice President - Finance
and Chief Financial Officer

INTRODUCTION

In this section, we (1) explain our operating results and financial condition by business segment, (2) describe the sources and uses of our cash, and (3) describe significant factors and conditions currently affecting our businesses and those that may affect them in the future. As you read Financial Review, it will be helpful to refer to our consolidated financial statements and notes on pages 22-42 of this Annual Report to Shareholders.

BUSINESS OVERVIEW

Our domestic propane business is conducted through AmeriGas Partners, L.P. (AmeriGas Partners) and its operating subsidiary, AmeriGas Propane, L.P. (the "Operating Partnership"). We refer to AmeriGas Partners and the Operating Partnership together as the Partnership. We hold an effective 58.6% equity interest in the Operating Partnership comprising Common Units and Subordinated Units of AmeriGas Partners and our general partner interests. Our domestic propane business is managed by our subsidiary AmeriGas Propane, Inc. (General Partner). Our utility business is conducted through UGI Utilities, Inc. (UGI Utilities) which operates a natural gas distribution utility (Gas Utility) in parts of eastern and southeastern Pennsylvania and an electric utility (Electric Utility) in northeastern Pennsylvania (together referred to as "Utilities"). We also conduct an energy marketing business through a subsidiary of UGI Enterprises, Inc. (Enterprises), UGI Energy Services, Inc. (UGI Energy Services). UGI Energy Services sells and markets natural gas directly to commercial and industrial customers, including customers of Gas Utility, and also manages its delivery. Enterprises, through subsidiaries, is also a participant in joint venture projects in China and Romania and is evaluating opportunities for providing energy and related services in other markets outside of the U.S.

RESULTS OF OPERATIONS

1998 COMPARED WITH 1997

CONSOLIDATED RESULTS

Year Ended September 30,	1998	1997	Decrease	

(Millions of dollars, except per share)				
Revenues	\$ 1,439.7	\$ 1,642.0	\$ (202.3)	(12.3)%
Total margin	\$ 666.5	\$ 684.9	\$ (18.4)	(2.7)%
Operating income	\$ 170.2	\$ 199.9	\$ (29.7)	(14.9)%
Net income	\$ 40.3	\$ 52.1	\$ (11.8)	(22.6)%
Net income per share -- diluted	\$ 1.22	\$ 1.57	\$ (.35)	(22.3)%

Our consolidated results decreased in 1998 mainly because of (1) the impact of warmer heating-season weather on Gas Utility and Partnership results and (2) lower other income of the Partnership.

PROPANE

Year Ended September 30,	1998	1997	Decrease	

(Millions of dollars)				
Retail gallons sold -- millions	785.3	807.4	(22.1)	(2.7)%
Degree days -- % warmer than normal (a)	(8.7)%	(1.2)%	--	--
Revenues	\$ 914.4	\$1,077.8	\$ (163.4)	(15.2)%
Total margin	\$ 470.6	\$ 477.4	\$ (6.8)	(1.4)%
Operating income	\$ 93.8	\$ 117.1	\$ (23.3)	(19.9)%
EBITDA (b)	\$ 159.2	\$ 181.4	\$ (22.2)	(12.2)%

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

(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.

Retail and wholesale volumes sold in 1998 were lower than in 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 we obtained from NOAA, weather in 1998 was 8.7% warmer than normal compared to weather that was 1.2% warmer than normal in 1997. In particular, the critical heating-season period of January and February was the warmest in more than 100 years.

Total revenues from our retail propane sales were \$746.1 million in 1998, a decrease of \$122.1 million from 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 1998 decreased \$37.5 million to \$88.5 million due to lower 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 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 1998 due to the lower retail volumes sold. The decline in 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 1998 principally resulted from the lower propane product costs.

The decrease in 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 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 1998. Like many companies planning debt refinancings, the Partnership postponed its 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

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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 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 1997 after determining that its storage terminal facilities in Chesapeake, Virginia were not strategic to our business. Operating expenses of the Partnership were \$320.2 million in 1998 compared to \$316.4 million in 1997. Operating expenses in 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 of the Partnership 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.

UTILITIES

Year Ended September 30,	1998	1997	Increase (Decrease)	

(Millions of dollars)				
GAS UTILITY:				
System throughput -- bcf	74.9	80.2	(5.3)	(6.6)%
Degree days -- % warmer than normal	(16.3)%	(4.8)%	--	--
Revenues	\$350.2	\$389.1	\$(38.9)	(10.0)%
Total margin	\$157.2	\$168.7	\$(11.5)	(6.8)%
Operating income	\$ 68.9	\$ 74.8	\$ (5.9)	(7.9)%
ELECTRIC UTILITY:				
Sales -- gwh	876.4	868.5	7.9	.9%
Revenues	\$ 72.1	\$ 72.1	\$ --	--%
Total margin	\$ 34.0	\$ 35.2	\$ (1.2)	(3.4)%
Operating income	\$ 10.4	\$ 10.7	\$ (0.3)	(2.8)%

bcf - billions of cubic feet. gwh - millions of kilowatt hours. Total margin represents revenues less cost of sales and revenue-related taxes.

GAS UTILITY. Weather in Gas Utility's service territory was 16.3% warmer than normal in 1998 compared with weather that was 4.8% warmer than normal in 1997. Our total system throughput decreased 6.6% in 1998 primarily because the warmer weather resulted in a 5.1 bcf reduction (14.5%) in sales to our firm-residential, commercial and industrial (collectively, "core market") customers.

The decrease in Gas Utility's revenues in 1998 was primarily due to the lower volumes sold to our core market customers. Our cost of gas sold decreased \$25.5 million to \$179.6 million in 1998 also reflecting the lower sales to core market customers.

The decrease in Gas Utility's total margin includes (1) a \$9.9 million decrease in margin from our core market customers and (2) a \$2.7 million decrease in margin from our interruptible customers. Interruptible margin in 1998 was impacted by lower interruptible transportation rates. Gas Utility reduced its rates to alternate-fuel interruptible customers in order to remain competitive with declining oil prices.

Gas Utility operating income decreased \$5.9 million in 1998 reflecting lower total margin partially offset by lower operating expenses and higher other income. Gas Utility's operating expenses during 1998 decreased \$5.4 million principally as a result of (1) \$1.6 million of income from an insurance recovery, (2) a \$2.1 million decrease in distribution system maintenance expenses, and (3) lower charges relating to environmental matters.

ELECTRIC UTILITY. Pennsylvania's Electricity Generation Customer Choice and Competition Act (Customer Choice Act) and the associated Restructuring Order issued by the PUC (see "Customer Choice Act" on page 19) did not have a significant effect on Electric Utility's 1998 results. Total electric sales were higher in 1998 reflecting the warmer summer weather's effect on air conditioning use and an increase in the number of customers. Electric Utility revenues in 1998 were equal to 1997 reflecting higher total sales offset by the effects of our Customer Choice Act pilot program. Our Customer Choice Act pilot program allowed a limited number of our customers the chance to choose another supplier of electricity beginning November 1, 1997. Because pilot program participants buy their electricity from others, we record revenues for distributing the electricity over our wires but we do not record revenues related to the electricity itself.

Our cost of sales increased to \$35.0 million in 1998 from \$33.8 million in 1997. The increase was due to slightly higher costs to generate electricity and purchase power under our power supply agreement. In accordance with the June 1998 Restructuring Order, our base rates reflect a fixed amount for electric generation costs, and we no longer recover a separate Energy Cost Rate (ECR). As a result, we no longer defer the difference between our actual costs of

electricity and the amount of such costs included in our rates.

Electric Utility's total margin decreased \$1.2 million in 1998 due to higher generation and purchased power costs. The decrease in operating income reflects the net effects of (1) lower total margin, (2) legal expenses associated with Restructuring Order activities, and (3) higher other income.

ENERGY MARKETING

Year Ended September 30,	1998	1997	Increase	

(Millions of dollars)				
Revenues	\$103.0	\$103.0	--	--
Total margin	\$ 4.7	\$ 3.6	\$1.1	30.6%
Operating income	\$ 2.0	\$ 1.7	\$0.3	17.6%

Although volumes sold were slightly higher in 1998, revenues were equal with 1997 due to lower average selling prices. Total margin in 1998 was \$1.1 million higher primarily because the prior year's margins were negatively impacted by a decline in the value of pipeline capacity caused by the warmer-than-normal weather. Operating income from our energy marketing business was higher than the prior year reflecting the increase in total margin partially offset by lower other income and higher operating expenses.

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CONSOLIDATED RESULTS

Year Ended September 30,	1997	1996	Increase	

(Millions of dollars, except per share)				
Revenues	\$ 1,642.0	\$ 1,557.6	\$ 84.4	5.4%
Total margin	\$ 684.9	\$ 652.4	\$ 32.5	5.0%
Operating income	\$ 199.9	\$ 159.7	\$ 40.2	25.2%
Net income	\$ 52.1	\$ 39.5	\$ 12.6	31.9%
Net income per share -- diluted	\$ 1.57	\$ 1.19	\$.38	31.9%

Our results in 1997 reflect a significant improvement in AmeriGas Partners' performance. In addition, net income in 1997 includes \$2.3 million from the sale of UTI Energy Corp. common stock.

PROPANE

Year Ended September 30,	1997	1996	Increase (Decrease)	

(Millions of dollars)				
Retail gallons sold -- millions	807.4	855.4	(48.0)	(5.6)%
Degree days -- % colder (warmer) than normal (a)	(1.2)%	1.7%	--	--
Revenues	\$1,077.8	\$1,013.2	\$ 64.6	6.4%
Total margin	\$ 477.4	\$ 443.5	\$ 33.9	7.6%
Operating income	\$ 117.1	\$ 80.8	\$ 36.3	44.9%
EBITDA (b)	\$ 181.4	\$ 144.9	\$ 36.5	25.2%

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

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

We sold fewer retail gallons of propane in 1997 due in part to warmer heating-season weather. Weather in the continental U.S. during 1997 as determined by NOAA averaged 1.2% warmer than normal compared to weather that was 1.7% colder than normal in 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 1997 principally due to reduced low-margin sales of storage inventories.

Total 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 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 1997 because of higher average retail unit margins. Although our propane product costs were significantly higher in 1997, we benefitted from favorable fixed-price supply arrangements and derivative commodity contracts entered into as part of our 1997 propane supply strategy. The higher 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 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 of the Partnership were \$316.4 million in 1997 compared with \$317.4 million in 1996. The 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 1996 operating expenses, operating expenses in 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 1997 reflecting a pre-tax gain of \$4.7 million from the sale of the Partnership's 50% interest in Atlantic Energy.

UTILITIES

Year Ended September 30,	1997	1996	Increase (Decrease)	

(Millions of dollars)				
GAS UTILITY:				
System throughput -- bcf	80.2	85.4	(5.2)	(6.1)%
Degree days -- % colder (warmer) than normal	(4.8)%	4.2%	--	--
Revenues	\$389.1	\$391.0	\$ (1.9)	(.5)%
Total margin	\$168.7	\$169.7	\$ (1.0)	(.6)%
Operating income	\$ 74.8	\$ 72.9	\$ 1.9	2.6%
ELECTRIC UTILITY:				
Sales -- gwh	868.5	884.7	(16.2)	(1.8)%
Revenues	\$ 72.1	\$ 69.5	\$ 2.6	3.7%
Total margin	\$ 35.2	\$ 33.0	\$ 2.2	6.7%
Operating income	\$ 10.7	\$ 8.6	\$ 2.1	24.4%

GAS UTILITY. Weather in Gas Utility's service territory was 4.8% warmer than normal in 1997 compared with weather that was 4.2% colder than normal in 1996. Total system throughput decreased 6.1% during 1997 due to (1) the warmer weather's effect on our core market sales and (2) a decrease in low-margin interruptible delivery service volumes associated with the shut-down of a gas-fired cogeneration facility.

Gas Utility's revenues were \$1.9 million lower in 1997 as a \$27.2 million increase in core market revenues due mainly to higher average purchased gas cost (PGC) rates was offset by (1) a \$21.2 million decrease in core market revenues from lower sales and (2) an \$8.1 million decrease in revenues from off-system sales. Our cost of gas sold decreased \$1.1 million to \$205.2 million in 1997 reflecting the lower off-system and core market sales partially offset by higher average PGC rates.

The decrease in Gas Utility's total margin principally reflects a \$6.3 million decrease in total margin from core market

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FINANCIAL REVIEW, CONTINUED

customers resulting from the warmer weather. This decrease was partially offset by a \$5.5 million increase in total margin from our interruptible customers.

Although total margin was slightly lower in 1997, Gas Utility operating income increased \$1.9 million because of (1) a \$1.5 million decrease in operating expenses and (2) higher other income. Operating expenses in 1997 declined \$1.5 million due to (1) a decrease in distribution system expenses, (2) lower accruals for uncollectible accounts, and (3) lower general and administrative expenses. These decreases were partially offset by higher costs associated with environmental matters.

ELECTRIC UTILITY. Electric Utility sales decreased during 1997 on weather which was 5.6% warmer than in 1996. Electric Utility base rate revenues increased \$1.7 million in 1997 as a \$2.8 million increase resulting from higher base rates was partially offset by a \$1.1 million decrease resulting from the lower sales. In addition, Electric Utility revenues include a \$.9 million increase in energy cost recoveries. Our cost of sales increased to \$33.8 million in 1997 from \$33.4 million in 1996 due to higher energy cost recoveries partially offset by the lower sales.

Electric Utility total margin and operating income increased during 1997 principally as a result of the higher base rates. Total operating and administrative expenses in 1997 and 1996 were comparable.

ENERGY MARKETING

Year Ended September 30,	1997	1996	Increase (Decrease)	

(Millions of dollars)				
Revenues	\$103.0	\$83.9	\$ 19.1	22.8%
Total margin	\$ 3.6	\$ 6.2	\$ (2.6)	(41.9)%
Operating income	\$ 1.7	\$ 4.4	\$ (2.7)	(61.4)%

Revenues from energy marketing in 1997 increased due to (1) higher billed volumes and (2) higher natural gas prices. Total margin, however, was lower in 1997 due to the warmer winter weather's downward effect on (1) natural gas prices and (2) the value of pipeline capacity. Operating income from our energy marketing business was \$1.7 million in 1997 compared with \$4.4 million in 1996 principally as a result of the lower total margin.

FINANCIAL CONDITION AND LIQUIDITY

CAPITALIZATION AND LIQUIDITY

Our cash and short-term investments totaled \$148.4 million at September 30, 1998. This amount includes \$120.5 million of cash and short-term investments held by UGI. The primary sources of UGI's cash and short-term investments are the cash dividends it receives from AmeriGas, Inc. and UGI Utilities. AmeriGas's ability to pay dividends to UGI is dependent upon its receipt of Partnership distributions. During 1998, 1997 and 1996, AmeriGas, Inc. and UGI Utilities paid cash dividends to UGI as follows:

Year Ended September 30,	1998	1997	1996

(Millions of dollars)			
AmeriGas, Inc.	\$55.2	\$51.7	\$61.9
UGI Utilities	22.6	24.1	32.9

Total dividends to UGI	\$77.8	\$75.8	\$94.8

AMERIGAS PARTNERS. 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 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.

UGI UTILITIES. UGI Utilities' primary cash sources have been (1) cash generated by operations and (2) borrowings under its revolving credit agreements. UGI Utilities also can issue up to an additional \$52 million of unsecured debt under its shelf registration.

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UGI Utilities may borrow up to \$97 million under its revolving credit agreements. Borrowings under these agreements totaled \$68.4 million at September 30, 1998 and \$67 million at September 30, 1997. The revolving credit agreements contain financial covenants with respect to interest coverage ratios and minimum tangible net worth. These covenants also restrict payments for investments, redemptions of capital stock, prepayments of debt and dividends. At September 30, 1998, UGI Utilities could borrow up to the maximum amount available.

Management believes that UGI Utilities' cash flow from operations and borrowings under its shelf registration and bank credit facilities will satisfy UGI Utilities' cash needs for the foreseeable future.

CASH FLOWS

OPERATING ACTIVITIES. Although our operating results were lower in 1998, cash flow from operating activities increased \$6.5 million over 1997. Included in the 1998 amount is \$26.5 million of cash 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 businesses). Changes in operating working capital provided \$13.6 million of cash in 1997.

Although the Partnership contributed slightly more than half of the 1998 operating cash flow before working capital changes, it contributed nearly three-quarters of our total operating cash flow. This was due to a \$52.7 million decrease in the Partnership's inventory, accounts receivable and prepaid propane purchases due to improved working capital management and lower propane product costs. UGI Utilities' operating working capital changes required \$18.9 million of cash principally due to a decrease in deferred fuel overcollections and changes in accounts payable and accrued income taxes.

INVESTING ACTIVITIES. We spent \$69.2 million for property, plant and equipment in 1998 compared with \$68.8 million in 1997 (see table on page 18 for expenditures by business segment). During 1998, we paid \$8.1 million for propane business acquisitions compared to \$11.6 million in 1997.

FINANCING ACTIVITIES. We paid cash dividends on our Common Stock of \$47.6 million in 1998 compared with \$47.2 million in 1997. In addition, the Partnership paid distributions to public unitholders of \$39.0 million in 1998 and \$38.8 million in 1997. These amounts represent the MQD on all of the public Common Units. In addition, the Partnership paid the full MQD on the Common and Subordinated units we own. UGI Utilities borrowed a net \$1.4 million under its revolving credit facilities in 1998 compared with \$16.5 million in 1997. During 1998, UGI Utilities issued \$35 million of notes under its Medium-Term Note program. The Partnership, due to its strong operating cash flows in late 1998, repaid \$18 million of borrowings under its revolving credit facility in 1998. This compares with net borrowings of \$6 million in 1997. The Partnership borrowed \$23 million under its Acquisition Facility during 1998 compared to \$7 million during 1997. We repurchased \$11.3 million of Common Stock under our stock buy-back programs in 1998 compared to repurchases of \$19.2 million in 1997. In addition, UGI Utilities redeemed \$15.2 million face value of its Series Preferred Stock in April 1998.

[PIE CHARTS OMITTED]

SOURCES OF CASH - 1998

(Millions of dollars)	
Operations	\$178.5
Debt Issued	\$ 59.4
Proceeds from Disposals of Assets	\$ 7.9
Common Stock Issued	\$ 8.5

USES OF CASH - 1998

(Millions of dollars)	
Debt Repaid	\$ 40.3
Dividends and Distributions	\$ 86.6
Other	\$ 2.3
Investments in Joint Venture Partnerships	\$ 2.0
Short-term Investments	\$ 16.4
Acquisitions	\$ 8.1
Common Stock Repurchased	\$ 11.3
Redemption of UGI Utilities Preferred Stock	\$ 15.5
Capital Expenditures	\$ 69.2

DIVIDENDS AND DISTRIBUTIONS

During each of the last three fiscal years, we increased our annual dividend rate by 1.4%. Our annual dividend rate as of September 30, 1998 is \$1.46.

Our 58.6% effective interest in the Partnership consists of

(1) 4.4 million Common Units, (2) 19.8 million Subordinated Units, and (3) a 2%

general partner interest. The remaining 41.4% effective interest consists of 17.7 million publicly held Common Units. Approximately 45 days after the end of each fiscal quarter, the Partnership distributes all of its Available Cash (as defined in the Amended and Restated Agreement of Limited Partnership) relating to such fiscal quarter. Common Unitholders receive the MQD, plus any arrearages, before a distribution of Available Cash can be made on the Subordinated Units.

Since its formation in 1995, the Partnership has paid the MQD on all limited partner units outstanding. The amount of Available Cash needed in 1998 to pay the MQD on all units and the general partner interests was approximately \$94 million. 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 1998, 1997 and 1996 is as follows:

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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 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 it 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 10 to Consolidated Financial Statements, the subordination period applicable to the Subordinated Units of AmeriGas Partners 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.

CAPITAL EXPENDITURES

In the following table, we present capital expenditures by business segment for 1998, 1997 and 1996. We also provide amounts we expect to spend in fiscal 1999. We expect to finance a substantial portion of 1999 capital expenditures through cash generated by our operations and the remainder from borrowings under UGI Utilities' and the Partnership's credit facilities.

Year Ended September 30,	1999	1998	1997	1996

(Millions of dollars) (estimate)				
Propane	\$ 33.0	\$ 31.9	\$ 27.0	\$ 22.9
Gas Utility	40.5	32.0	36.7	34.6
Electric Utility	4.5	5.2	5.0	5.0
Other	2.9	.1	.1	.2

Total	\$ 80.9	\$ 69.2	\$ 68.8	\$ 62.7

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 businesses; (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. In addition, the PUC has ordered that all Pennsylvania utilities' mission critical systems must be Y2K compliant by March 31, 1999. AmeriGas Partners and UGI Utilities are addressing their Y2K issues separately. UGI Utilities and AmeriGas Partners have completed the assessments of their IT and non-IT systems.

AmeriGas Partners has successfully modified all of its critical IT systems that are not in the process of being replaced. Gas Utility and Electric Utility have successfully modified and unit tested all of their critical IT and non-IT systems. These systems include our customer information and data systems; our financial systems including payroll and the propane fuel accounting supply and transportation system; and our Gas Utility and Electric Utility distribution control systems. We plan to begin integrated testing of our Gas Utility and Electric Utility IT systems in February 1999. AmeriGas Partners is in the process of installing integrated financial system software that is already Y2K compliant. We anticipate that the installation of this software and any modification of AmeriGas Partners' 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

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services are directly date sensitive, as a diversified energy distribution 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 and natural gas and for the generation of electricity beyond that which we generate ourselves. 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 other factors. 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 for AmeriGas Partners will be completed by June 30, 1999. We expect such plans for Gas Utility and Electric Utility will be completed by March 31, 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 \$1 million. 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.

CUSTOMER CHOICE ACT

On June 19, 1998, the PUC entered its Opinion and Order (the "Restructuring Order") in Electric Utility's restructuring proceeding. The Restructuring Order was issued pursuant to the Customer Choice Act which required all Pennsylvania electric utilities to "unbundle" rates for generation, transmission and distribution services and to open electric sales to permit competitors to sell electricity to our customers. Under the terms of the Restructuring Order, beginning January 1, 1999 we will begin recovering \$32.5 million in stranded costs (including all related income taxes and gross receipts taxes) over a four-year period. We will recover these costs through a Competitive Transition Charge (CTC) that we will charge all of our distribution customers. We will also recover interest costs on the unrecovered balances at an annual rate of 7.94%. "Stranded costs" are costs that we would have recovered under prior ratemaking but may not be recoverable in the new competitive electric generation marketplace.

Under the terms of the Restructuring Order, Electric Utility's rates for the transmission and distribution of electricity through our wires are capped through July 1, 2001. Electric Utility generally may not increase the generation component of prices as long as stranded costs are being recovered through the CTC. This generation rate cap is expected to extend through December 31, 2002. All of our Electric Utility customers have the opportunity to purchase electricity from other suppliers beginning January 1, 1999. We will give those customers who choose an alternate supplier a "shopping credit" averaging about 3.67 cents a kilowatt-hour in calendar 1999 and 2000, and 4.3 cents a kilowatt-hour in calendar 2001 and 2002.

As a result of the Restructuring Order, we discontinued regulatory accounting for the electric generation portion of our business in June 1998. The discontinuance did not have a material effect on our financial condition or results of operations. For a further discussion of the Customer Choice Act, see Note 2 to Consolidated Financial Statements.

We continue to evaluate the potential impact of the Customer Choice Act and the Restructuring Order on Electric Utility's future financial results. Because the sources and costs of our electric power vary from period to period and because we no longer defer the difference between actual power costs and amounts included in our rates, Electric Utility's quarterly results may be more volatile in the future. In addition, future financial results will likely depend upon a number of factors including the number of our customers who choose alternative electricity suppliers and our success in producing or purchasing electricity at competitive market prices. If our costs to produce or purchase power exceed the amounts we are able to charge our customers (including an allocable portion of our CTC revenues), Electric Utility's results would be adversely affected.

PROPOSED GAS CUSTOMER CHOICE LEGISLATION

On March 27, 1997, proposed gas customer choice legislation was introduced in the Pennsylvania General Assembly. The proposed legislation would, among other things, extend the availability of gas transportation service to residential and small commercial customers of local gas distribution companies. It would permit all customers of natural gas distribution utilities to purchase gas from suppliers of their choice by April 1, 1999. It would also require Pennsylvania gas utilities to stop selling natural gas. Legislative committees have conducted public hearings on the proposed legislation and we have provided testimony on issues such as the recovery of costs associated with our existing gas supply

assets and the need for standards to assure reliability of future gas supplies. At the request of the Governor of Pennsylvania, in December 1997 a collaborative group of industry stakeholders was convened to attempt to further develop the proposed legislation. To date, this group has failed to reach a consensus. We expect the collaborative

process to continue, and we will participate and monitor developments, as appropriate. Gas Utility is considering a number of options for addressing the provision of unbundled transportation to residential and small commercial customers.

MANUFACTURED GAS PLANTS

The gas distribution business has been one of UGI Utilities' main businesses since it began in 1882. Prior to the 1950s construction of major natural gas pipelines, gas used for lighting and heating was produced at manufactured gas plants (MGPs) from processes involving coal, coke or oil. Some constituents of coal tars produced from this process are today considered hazardous substances under the Comprehensive Environmental Response, Compensation and Liability Act (Superfund Law) and may be located at those sites.

One of the ways UGI Utilities expanded its business in its early years was by entering into agreements with other gas companies to operate their businesses. After 1888, the principal means of expansion was by acquiring all or a portion of the stock of companies engaged in this business. UGI Utilities also provided management and administrative services to some of these companies. UGI Utilities grew rapidly to become one of the largest public utility holding companies in the U.S. Pursuant to the Public Utility Holding Company Act of 1935, UGI Utilities divested all of its utility operations other than those which now constitute Gas Utility and Electric Utility.

UGI Utilities has been notified of several sites outside Pennsylvania on which (1) MGPs were formerly operated by it or owned or operated by its former subsidiaries and (2) either environmental agencies or private parties are investigating the extent of environmental contamination and the necessity of environmental remediation. UGI Utilities is currently litigating a claim against it relating to an out-of-state site. If UGI Utilities were found liable as a "responsible party" as defined in the Superfund Law or in comparable state statutes, it would have joint and several liability with other responsible parties for the full amount of the cleanup costs. A "responsible party" under the Superfund Law includes the current owner of the property and each owner or operator of the facility during the time hazardous substances were released on the property. In addition, UGI Utilities has identified environmental contamination at several of its properties and has voluntarily investigated and, as appropriate, remediated these sites in cooperation with environmental agencies or private parties.

At sites where a former subsidiary of UGI Utilities operated a MGP, we believe that UGI Utilities should not have significant liability because UGI Utilities generally is not legally liable for the obligations of its subsidiaries. Under certain circumstances, however, a court could find a parent company liable for environmental damage at sites owned by a subsidiary company when the parent company either (1) itself operated the facility causing the environmental damage or (2) otherwise so controlled the subsidiary that the subsidiary's separate corporate form should be disregarded. There could be, therefore, significant future costs of an uncertain amount associated with environmental damage caused by MGPs that UGI Utilities owned or directly operated, or that were owned or operated by former subsidiaries of UGI Utilities, if a court were to conclude that the subsidiary's separate corporate form should be disregarded.

We believe, after consultation with counsel, that future costs of investigation and remediation, if any, will not have a material adverse effect on our financial position but could be material to our operating results and cash flows depending on the nature and timing of future developments and the amounts of future operating results and cash flows. For a further discussion of environmental matters, see Notes 1 and 11 to Consolidated Financial Statements.

MARKET RISK DISCLOSURES

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

Price risk associated with fluctuations in the prices our non-regulated businesses pay for natural gas and 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. In order to manage market price risk relating to substantially all of UGI Energy Services' firm commitments to sell natural gas, we purchase exchange-traded natural gas futures contracts. Although we use derivative financial and commodity instruments to reduce market price risk associated with firm commitments or 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.

Although Gas Utility is subject to changes in the price of natural gas, the current regulatory framework allows Gas Utility to recover prudently incurred gas costs from its customers. Consequently, there currently is limited commodity

price risk associated with Gas Utility due to the current rate-making structure.

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, (2) the market price of natural gas declined 25 cents a dekatherm, and (3) interest rates on ten-year U.S. treasury notes declined 50 basis points:

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September 30, 1998	Fair Value	Change in Fair Value

(Millions of dollars)		
Propane commodity price risk	\$ (.6)	\$(3.8)
Natural gas commodity price risk	\$.2	\$(2.9)
Interest rate risk	\$(2.4)	\$(2.0)

We expect that any losses from market risk sensitive instruments used to manage commodity 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.

IMPACT OF INFLATION

Inflation impacts our propane operations in the prices we pay for operating and administrative services and, to some extent, propane gas. Inflation also impacts our gas and electric utility operations primarily in the prices we pay for labor, materials and services. Because Electric Utility's base rates are currently capped and Gas Utility's base rates can be adjusted only through general rate filings with the PUC, increased costs, absent timely rate relief, can have a significant impact on their results. Under current tariffs, Gas Utility is permitted, after annual PUC review, to recover certain costs of purchased gas, fuel and power which comprise a substantial portion of Gas Utility's costs and expenses.

We attempt to limit the effects of inflation on our results of operations through cost control efforts, productivity improvements and, as permitted by the PUC, timely rate relief.

FORWARD-LOOKING STATEMENTS

Information contained above in this Financial Review and elsewhere in this Annual Report with respect to expected financial results and future events is forward-looking, based on our estimates and assumptions and subject to risks 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, oil, electricity and natural gas 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) large customer defaults; (9) operating hazards and risks incidental to generating and distributing electricity and transporting, storing and distributing natural gas and propane including the risk of explosions and fires resulting in personal injury and property damage; (10) regional economic conditions; (11) the success of the company and its suppliers in achieving Year 2000 compliance; (12) economic and political conditions in international markets; (13) interest rate fluctuations and other capital market conditions, including foreign currency rate fluctuations; and (14) reduced distributions from subsidiaries.

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.

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SEGMENT INFORMATION
(Millions of dollars)

Year Ended September 30,	1998	1997	1996

REVENUES			
Propane	\$ 914.4	\$1,077.8	\$1,013.2
Gas utility	350.2	389.1	391.0
Electric utility	72.1	72.1	69.5
Energy marketing	103.0	103.0	83.9

Total	\$1,439.7	\$1,642.0	\$1,557.6

OPERATING INCOME (LOSS)			
Propane	\$ 93.8	\$ 117.1	\$ 80.8
Gas utility	68.9	74.8	72.9
Electric utility	10.4	10.7	8.6
Energy marketing	2.0	1.7	4.4
Corporate general and other	(4.9)	(4.4)	(7.0)

Total	\$ 170.2	\$ 199.9	\$ 159.7

IDENTIFIABLE ASSETS			
Propane	\$1,225.8	\$1,335.6	\$1,388.3
Gas utility	593.4	593.7	561.1
Electric utility	95.6	86.2	83.9
Energy marketing	12.6	10.0	13.5
Corporate general and other	147.2	126.2	86.2

Total	\$2,074.6	\$2,151.7	\$2,133.0

DEPRECIATION AND AMORTIZATION			
Propane -- depreciation	\$ 39.7	\$ 38.6	\$ 38.3
Propane -- amortization	25.7	25.7	25.8
Gas utility	18.2	17.1	17.6
Electric utility	3.9	4.3	4.0
Corporate general and other	.3	.4	.3

Total	\$ 87.8	\$ 86.1	\$ 86.0

CAPITAL EXPENDITURES			
Propane	\$ 31.9	\$ 27.0	\$ 22.9
Gas utility	32.0	36.7	34.6
Electric utility	5.2	5.0	5.0
Corporate general and other	.1	.1	.2

Total	\$ 69.2	\$ 68.8	\$ 62.7
=====			

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CONSOLIDATED STATEMENTS OF INCOME
(Millions of dollars, except per share amounts)

Year Ended September 30,	1998	1997	1996
REVENUES (note 1)			
Propane	\$ 914.4	\$ 1,077.8	\$ 1,013.2
Utilities	422.3	461.2	460.5
Energy marketing	103.0	103.0	83.9
	1,439.7	1,642.0	1,557.6
COSTS AND EXPENSES			
Propane cost of sales	443.8	600.4	569.7
Utilities -- gas, fuel and purchased power (note 1)	214.6	239.0	239.7
Energy marketing cost of sales	98.3	99.4	77.7
Operating and administrative expenses	437.7	439.8	437.5
Depreciation and amortization (note 1)	87.8	86.1	86.0
Other income, net (note 13)	(12.7)	(22.6)	(12.7)
	1,269.5	1,442.1	1,397.9
OPERATING INCOME			
Interest expense	(84.4)	(83.1)	(79.5)
Minority interest in AmeriGas Partners (note 1)	(8.9)	(18.3)	(4.3)
INCOME BEFORE INCOME TAXES AND SUBSIDIARY			
PREFERRED STOCK DIVIDENDS	76.9	98.5	75.9
Income taxes (notes 1 and 4)	(34.4)	(43.6)	(33.6)
Dividends on UGI Utilities Series Preferred Stock	(2.2)	(2.8)	(2.8)
Net Income	\$ 40.3	\$ 52.1	\$ 39.5
EARNINGS PER COMMON SHARE			
Basic	\$ 1.22	\$ 1.58	\$ 1.19
Diluted	\$ 1.22	\$ 1.57	\$ 1.19
AVERAGE COMMON SHARES OUTSTANDING (MILLIONS)			
Basic	32.971	33.049	33.058
Diluted	33.123	33.132	33.142

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

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CONSOLIDATED BALANCE SHEETS
(Millions of dollars)

ASSETS

September 30,	1998	1997

CURRENT ASSETS		
Cash and cash equivalents (note 1)	\$ 66.6	\$ 64.0
Short-term investments, at cost which approximates market value	81.8	65.4
Accounts receivable (less allowances for doubtful accounts of \$7.9 and \$11.3, respectively)	81.8	110.6
Accrued utility revenues (note 1)	6.7	7.7
Inventories (notes 1 and 6)	77.9	95.6
Prepaid propane purchases (note 1)	.8	21.7
Deferred income taxes (notes 1 and 4)	14.7	20.3
Prepaid expenses and other current assets	20.3	18.6

Total current assets	350.6	403.9

PROPERTY, PLANT AND EQUIPMENT (note 1)		
Propane	655.8	620.6
Utilities	797.5	765.6
Other	11.2	11.1

	1,464.5	1,397.3
Accumulated depreciation and amortization	(465.5)	(410.1)

Net property, plant and equipment	999.0	987.2

OTHER ASSETS		
Intangible assets (less accumulated amortization of \$141.5 and \$116.7, respectively) (note 1)	630.7	677.9
Utility regulatory assets (notes 1, 2 and 4)	59.3	48.9
Other assets (note 1)	35.0	33.8

Total assets	\$2,074.6	\$2,151.7
=====		

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

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LIABILITIES AND STOCKHOLDERS' EQUITY

September 30,	1998	1997

CURRENT LIABILITIES		
Current maturities of long-term debt -- Propane (note 3)	\$ 6.1	\$ 6.7
Current maturities of long-term debt -- Utilities (note 3)	7.1	17.1
Current maturities of long-term debt -- other (note 3)	.4	.4
Current portion of UGI Utilities Series Preferred Stock (note 7)	--	3.0
Bank loans -- Propane (note 3)	10.0	28.0
Bank loans -- Utilities (note 3)	68.4	67.0
Accounts payable	80.1	103.2
Employee compensation and benefits accrued	29.5	27.8
Dividends and interest accrued	44.7	43.2
Income taxes accrued	.3	27.4
Refunds and deposits	30.7	24.0
Other current liabilities	44.5	56.7

Total current liabilities	321.8	404.5

DEBT AND OTHER LIABILITIES		
Long-term debt -- Propane (note 3)	702.9	684.4
Long-term debt -- Utilities (note 3)	180.1	152.2
Long-term debt -- other (note 3)	7.8	8.2
Deferred income taxes (notes 1 and 4)	154.4	152.5
Deferred investment tax credits (notes 1 and 4)	10.0	10.4
Other noncurrent liabilities	74.0	64.7

Commitments and contingencies (note 11)		

MINORITY INTEREST		
Minority interest in AmeriGas Partners (note 1)	236.5	266.5

PREFERRED AND PREFERENCE STOCK		
UGI Utilities Series Preferred Stock Subject to Mandatory Redemption, without par value (note 7)	20.0	32.2
Preference Stock, without par value (note 8) (authorized -- 5,000,000 shares)	--	--

COMMON STOCKHOLDERS' EQUITY		
Common Stock, without par value (notes 8 and 9) (authorized -- 100,000,000 shares; issued -- 33,198,731 shares)	394.3	393.7
Accumulated deficit	(17.7)	(9.2)

Treasury stock, at cost (note 9)	376.6	384.5
	(9.5)	(8.4)

Total common stockholders' equity	367.1	376.1

Total liabilities and stockholders' equity	\$2,074.6	\$2,151.7
=====		

UGI CORPORATION 1998 ANNUAL REPORT

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Millions of dollars)

Year Ended September 30,	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 40.3	\$ 52.1	\$ 39.5
Reconcile to net cash provided by operating activities:			
Depreciation and amortization	87.8	86.1	86.0
Minority interest in AmeriGas Partners	8.9	18.3	4.3
Deferred income taxes, net	10.1	(2.2)	12.0
Other, net	4.9	4.1	(3.5)
	152.0	158.4	138.3
Net change in:			
Receivables and accrued utility revenues	22.0	(6.8)	(37.1)
Inventories and prepaid propane purchases	39.0	(3.6)	(10.2)
Deferred fuel costs	(5.8)	2.8	(9.6)
Accounts payable	(23.5)	8.5	25.1
Other current assets and liabilities	(5.2)	12.7	4.7
Net cash provided by operating activities	178.5	172.0	111.2
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(69.2)	(68.8)	(62.7)
Acquisitions of businesses, net of cash acquired	(8.1)	(11.6)	(28.0)
Short-term investments increase	(16.4)	(42.3)	(12.1)
Proceeds from disposals of assets	7.9	14.4	4.2
Investments in joint venture partnerships	(2.0)	--	(1.0)
Other, net	(2.3)	(2.2)	.7
Net cash used by investing activities	(90.1)	(110.5)	(98.9)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends on Common Stock	(47.6)	(47.2)	(46.4)
Distributions on Partnership public Common Units	(39.0)	(38.8)	(38.7)
Issuance of long-term debt	58.0	28.9	57.1
Repayment of long-term debt	(22.3)	(29.4)	(59.7)
Propane bank loans increase (decrease)	(18.0)	6.0	15.0
Utilities bank loans increase	1.4	16.5	8.5
Issuance of Common Stock	8.5	11.7	11.3
Repurchases of Common Stock	(11.3)	(19.2)	(7.1)
Redemption of UGI Utilities Series Preferred Stock	(15.5)	--	--
Net cash used by financing activities	(85.8)	(71.5)	(60.0)
Cash and cash equivalents increase (decrease)	\$ 2.6	\$ (10.0)	\$ (47.7)
CASH AND CASH EQUIVALENTS			
End of period	\$ 66.6	\$ 64.0	\$ 74.0
Beginning of period	64.0	74.0	121.7
Increase (decrease)	\$ 2.6	\$ (10.0)	\$ (47.7)

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

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Millions of dollars, except per share amounts)

	Common Stock	Accumulated Deficit	Treasury Stock
<hr/>			
BALANCE SEPTEMBER 30, 1995	\$386.1	\$ (5.5)	\$ (.1)
Net income		39.5	
Cash dividends on Common Stock (\$1.41 per share)		(46.7)	
Common Stock issued (note 9):			
Employee and director plans	3.6	(.1)	3.1
Dividend reinvestment plan	2.2		2.6
Common Stock repurchased			(7.1)
<hr/>			
BALANCE SEPTEMBER 30, 1996	391.9	(12.8)	(1.5)
Net income		52.1	
Cash dividends on Common Stock (\$1.43 per share)		(47.3)	
Common Stock issued (note 9):			
Employee and director plans	.7	(1.2)	9.2
Dividend reinvestment plan			3.1
Stock-based compensation expense	1.1		
Common Stock repurchased			(19.2)
<hr/>			
BALANCE SEPTEMBER 30, 1997	393.7	(9.2)	(8.4)
Net income		40.3	
Cash dividends on Common Stock (\$1.45 per share)		(47.8)	
Common Stock issued (note 9):			
Employee and director plans	.5	(.7)	6.3
Dividend reinvestment plan			2.8
Acquisition	.1		1.1
Redemption of UGI Utilities Series Preferred Stock		(.3)	
Common Stock repurchased			(11.3)
<hr/>			
Balance September 30, 1998	\$394.3	\$(17.7)	\$ (9.5)
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The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Millions of dollars, except per share amounts and where indicated otherwise)

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1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION. UGI Corporation (UGI) is a holding company with three businesses. Our utility business is conducted through a wholly owned subsidiary, UGI Utilities, Inc. (UGI Utilities). UGI Utilities owns and operates a natural gas distribution utility (Gas Utility) in parts of eastern and southeastern Pennsylvania and an electric utility (Electric Utility) in northeastern Pennsylvania (together we refer to them as "Utilities"). We conduct a national propane distribution business through AmeriGas Partners, L.P. (AmeriGas Partners) and its operating subsidiary, AmeriGas Propane, L.P. (the "Operating Partnership"), both of which are Delaware limited partnerships. At September 30, 1998, UGI held, through wholly owned subsidiaries, an effective 2% general partner interest and a 56.6% limited partnership interest in the Operating Partnership. We refer to AmeriGas Partners and the Operating Partnership together as "the Partnership." 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. We also conduct an energy marketing business principally through our wholly owned subsidiary, UGI Energy Services, Inc. (UGI Energy Services), a wholly owned subsidiary of UGI Enterprises, Inc. (Enterprises). Enterprises is also currently involved in propane joint-venture projects in Romania and China and is evaluating other international propane business opportunities.

Our limited partner interest in AmeriGas Partners comprises 4,392,858 Common Units and 19,782,146 Subordinated Units. The remaining 41.4% effective interest in the Partnership comprises 17,713,135 publicly held Common Units representing limited partner interests. Our wholly owned second-tier subsidiary, AmeriGas Propane, Inc. (the "General Partner"), serves as the general partner of AmeriGas Partners and the Operating Partnership. AmeriGas Partners and the Operating Partnership have no employees. Employees of the General Partner conduct, direct and manage the activities of the Partnership. The General Partner does not receive management fees or other compensation in connection with its management of the Partnership, but it is reimbursed for direct and indirect expenses incurred on behalf of the Partnership, including all General Partner employee compensation expenses and a portion of UGI employee compensation and overhead costs. Although the Partnership's operating income comprises a significant portion of consolidated operating income, its impact on consolidated net income is considerably less due to (1) the Partnership's significant minority interest; (2) higher relative interest charges; and (3) a higher effective income tax rate associated with the Partnership's pre-tax income.

UGI is exempt from registration as a holding company and is not otherwise subject to regulation under the Public Utility Holding Company Act of 1935 except for acquisitions under Section 9(a)(2). UGI is not subject to regulation by the Pennsylvania Public Utility Commission (PUC).

CONSOLIDATION PRINCIPLES. Our consolidated financial statements include the accounts of UGI and its majority-owned subsidiaries. We eliminate all significant intercompany accounts and transactions when we consolidate. We report the public unitholders' interest in AmeriGas Partners as minority interest in the consolidated financial statements.

RECLASSIFICATIONS. We have reclassified certain prior-period balances to conform with the current period presentation.

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.

REGULATED UTILITY OPERATIONS. Gas Utility and Electric Utility are subject to regulation by the PUC. We account for their regulated operations in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for

the Effects of Certain Types of Regulation" (SFAS 71). Generally, SFAS 71 requires that financial statements of a regulated enterprise reflect the actions of regulators, where appropriate. Under SFAS 71, regulated enterprises defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be allowed in the ratesetting

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process in a period different from the period in which they would have been reflected in income by an unregulated enterprise. These regulatory assets and liabilities are then reflected in the income statement in the period in which the same amounts are included in rates. If a separable portion of Utilities' business no longer meets the provisions of SFAS 71, we may be required to write off certain regulatory assets unless some form of transition cost recovery is established by the appropriate regulatory body which would meet the requirements under generally accepted accounting principles for continued accounting as regulatory assets during such recovery period. We continually monitor the regulatory and competitive environments to determine that regulatory assets are probable of recovery.

In June 1998, the PUC approved Electric Utility's restructuring plan which we submitted pursuant to Pennsylvania's Electricity Generation Customer Choice and Competition Act (Customer Choice Act) (see Note 2). In accordance with the Financial Accounting Standards Board's (FASB's) Emerging Issues Task Force (EITF) Statement 97-4, "Deregulation of the Pricing of Electricity -- Issues Related to the Application of FASB Statements 71 and 101" (EITF 97-4), we discontinued the application of SFAS 71 as it relates to the electric generation portion of Electric Utility's business in June 1998.

DERIVATIVE INSTRUMENTS. We use derivative instruments, including futures contracts, price swap agreements and option contracts, to hedge exposure to market risk associated with (1) fluctuations in the prices of natural gas we sell under firm commitments and (2) fluctuations in propane prices 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 defer gains or losses on futures contracts associated with natural gas sold under firm commitments and record them in cost of sales when the associated transactions affect earnings. We recognize gains or losses on derivative instruments associated with forecasted purchases of propane or issuances of debt 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 \$83.5 million in 1998, \$85.3 million in 1997, and \$79.8 million in 1996. We paid income taxes totaling \$29.8 million in 1998, \$32.0 million in 1997, and \$20.3 million in 1996.

REVENUE RECOGNITION. We recognize revenues from the sale of propane principally as product is shipped or delivered to customers. We record Utilities' revenues for service provided to the end of each month. We reflect Utilities' rate increases or decreases in revenues from effective dates permitted by the PUC. Our energy marketing business records revenues when product is delivered to customers.

INVENTORIES AND PREPAID PROPANE PURCHASES. Our inventories are stated at the lower of cost or market. We determine cost principally on an average or first-in, first-out (FIFO) method except for appliances for which we use the specific identification method.

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."

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. We record income taxes on our share of (1) the Partnership's current taxable income or loss and (2) the difference between the book and tax basis of the Partnership's assets and liabilities. The Operating Partnership does, however, have subsidiaries which operate in corporate form and are subject to federal and state income taxes.

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

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

EARNINGS PER COMMON SHARE. In 1998 we adopted SFAS No. 128, "Earnings Per Share" (SFAS 128). SFAS 128 establishes two methods for calculating earnings per share, basic and diluted, and simplifies the previous standards for computing earnings per share. Basic earnings per share are based on the weighted-average number of

common shares outstanding. Diluted earnings per share include the effect of stock options and awards. SFAS 128 requires restatement of all prior-period earnings per share data presented. In the following table, we

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present the shares used in computing basic and diluted earnings per share for 1998, 1997 and 1996:

	1998	1997	1996
Denominator (millions of shares):			
Average common shares outstanding for basic computation	32.971	33.049	33.058
Incremental shares issuable for stock options and awards	.152	.083	.084
Average common shares outstanding for diluted computation	33.123	33.132	33.142

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. We charge to accumulated depreciation the original cost of Utilities' retired plant, together with the net cost of removal, for financial accounting purposes. When we retire or dispose of other 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 Utilities' plant and equipment using the straight-line method over the estimated average remaining lives of the various classes of depreciable property. Depreciation as a percentage of the related average depreciable base for Gas Utility was 2.7% in 1998, 2.7% in 1997, and 2.9% in 1996. Depreciation as a percentage of the related average depreciable base for Electric Utility was 3.2% in 1998, 3.6% in 1997, and 3.6% in 1996. We compute depreciation on plant and equipment associated with our propane operations using the straight-line method over estimated service lives which range from two to 40 years.

Depreciation expense was \$61.4 million in 1998, \$59.8 million in 1997, and \$59.4 million in 1996.

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

	1998	1997
Goodwill (less accumulated amortization of \$94.7 million and \$79.4 million, respectively)	\$508.9	\$538.2
Excess reorganization value (less accumulated amortization of \$44.4 million and \$35.9 million, respectively)	117.1	135.1
Other (less accumulated amortization of \$2.4 million and \$1.4 million, respectively)	4.7	4.6
Total intangible assets	\$630.7	\$677.9

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 wholly owned subsidiary Petrolane Incorporated's (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 \$24.9 million in 1998, \$24.5 million in 1997, and \$24.6 million in 1996.

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 on April 19, 1995. The change in estimate resulted in the following adjustments to the Consolidated Balance Sheet: (1) a \$17.9 million decrease in goodwill; (2) a \$9.6 million decrease in excess reorganization value; (3) a \$20.2 million decrease in accrued income taxes, and (4) a \$7.3 million increase in deferred income tax benefits.

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.

STOCK-BASED COMPENSATION. As permitted by 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. We disclose certain pro forma net income and earnings per share data as if the fair value provisions of SFAS 123 had been applied (see Note 9).

OTHER ASSETS. Included in other assets are net deferred debt issuance costs of \$12.2 million at September 30, 1998 and \$13.7 million at September 30, 1997. We are amortizing these costs over the term of the related debt.

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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 businesses. 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 three to seven years once the installed software is ready for its intended use.

DEFERRED FUEL COSTS. Gas Utility's tariffs contain clauses which permit recovery of certain gas costs in excess of the level of such costs included in base rates. The clauses provide for a periodic adjustment for the difference between the total amount collected from customers under each clause and the recoverable costs incurred. We defer the difference between amounts recognized in revenues and the applicable gas costs incurred until they are subsequently billed or refunded to customers.

Prior to January 1, 1997, Electric Utility's rates were subject to an Energy Cost Rate (ECR) designed to recover or refund the difference between the actual fuel and purchased power costs and the amount included in base rates. In accordance with the provisions of the Customer Choice Act, the rates Electric Utility can charge its customers, including amounts pertaining to the recovery of fuel and purchased power costs, are subject to rate caps effective January 1, 1997. We expect the generation rate cap to extend through December 31, 2002 (see Note 2).

ENVIRONMENTAL LIABILITIES. 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, including regulatory relief. Gas Utility is permitted to amortize as removal costs site-specific environmental investigation and remediation costs, net of related third-party payments, associated with Pennsylvania sites. Gas Utility will be permitted to include in rates, through future base rate proceedings, a five-year average of such prudently incurred removal costs.

ACCOUNTING PRINCIPLES NOT YET ADOPTED. In June 1997, the 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 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.

2. UTILITY REGULATORY MATTERS

ELECTRIC UTILITY RESTRUCTURING ORDER. On June 19, 1998, the PUC entered its Opinion and Order (the "Restructuring Order") in Electric Utility's restructuring proceeding pursuant to Pennsylvania's Customer Choice Act. The Restructuring Order essentially adopts the terms included in a comprehensive settlement agreement (the "Settlement Agreement") previously entered into by UGI Utilities and the active parties to the restructuring proceeding, except Pennsylvania Power and Light Company (PP&L). Under the terms of the Restructuring Order, commencing January 1, 1999, Electric Utility is authorized to recover \$32.5 million in stranded costs (on a full revenue requirements basis which includes all income and gross receipts taxes) over a four-year period through a Competitive Transition Charge (CTC) (together with carrying charges on unrecovered balances of 7.94%) and to charge unbundled rates for generation, transmission and distribution services. Stranded costs are electric generation-

related costs that traditionally would be recoverable in a regulated environment but may not be recoverable in a competitive electric generation market.

Electric Utility's recoverable stranded costs include \$8.7 million for the buy-out of a 1993 power purchase agreement with an independent power producer. In June 1998, Electric Utility recorded a liability of \$8.7 million for the buy-out of the 1993 power purchase agreement and also recorded a corresponding regulatory asset.

Under the terms of the Restructuring Order and in accordance with the Customer Choice Act, Electric Utility's rates for transmission and distribution services are capped through July 1, 2001. In addition, Electric Utility generally may not increase the generation component of prices as long as stranded costs are being recovered through the CTC. This generation rate cap is expected to extend through December 31, 2002. All of Electric Utility's customers will be permitted to select an alternative generation supplier as of January 1, 1999. Customers choosing an alternative supplier will on average receive a generation "shopping credit" developed from system-wide generation rates of 3.67 cents per kilowatt hour (kwh) in calendar 1999 and 2000, and 4.3 cents per kwh in calendar 2001 and 2002. The Settlement Agreement gives Electric Utility the right, subject to prior PUC approval, to transfer its electric generation assets to a non-regulated affiliate. We believe that, upon filing the necessary documents with the PUC, Electric Utility will receive such approval.

The Customer Choice Act also authorized the PUC to implement pilot customer choice programs for up to five percent of the peak load of each customer class. In accordance with PUC directives, Electric Utility implemented such a pilot program effective November 1, 1997. The implementation of the pilot program did not have a material effect on Electric Utility's 1998 results of operations.

The EITF in 1997 issued EITF 97-4 which concluded that utilities should discontinue application of SFAS 71 for the generation portion of their business when a restructuring plan is in place and its terms are known. Based on such guidance, in June 1998 Electric Utility discontinued the application of SFAS 71 as it relates to the electric generation portion of its business, which assets comprise less than 25% of Electric Utility's identifiable assets. The discontinuance of SFAS 71 did not have a material effect on our financial position or results of operations.

REGULATORY ASSETS AND LIABILITIES. The following regulatory assets and liabilities are included in our accompanying balance sheets at September 30:

	1998	1997

Regulatory assets:		
Income taxes recoverable	\$46.5	\$44.4
Power agreement buy-out	8.7	-
Other postretirement benefits	3.3	3.8
Deferred environmental costs	.8	.7

Total regulatory assets	\$59.3	\$48.9

Regulatory liabilities:		
Refundable state taxes	\$ 2.0	\$ 3.1
Deferred fuel costs	1.7	7.4
Other postretirement benefits	1.4	-

Total regulatory liabilities	\$ 5.1	\$10.5

3. DEBT

Long-term debt comprises the following at September 30:

	1998	1997

Propane:		
AmeriGas Partners Senior Notes, 10.125%, due April 2007	\$100.0	\$100.0
First Mortgage Notes:		
Series A, 9.34%-11.71%, due April 2000 through April 2009 (including unamortized premium of \$13.5 and \$14.8, respectively, calculated at an 8.91% effective rate)	221.5	222.8
Series B, 10.07%, due April 2001 through April 2005 (including unamortized premium of \$9.8 and \$11.5, respectively, calculated at an 8.74% effective rate)	209.8	211.5
Series C, 8.83%, due April 2003 through April 2010	110.0	110.0
Acquisition Facility	60.0	37.0

Other	7.7	9.8
-	-	-
Total Propane	709.0	691.1
-	-	-
Utilities:		
Medium-Term Notes:		
7.25% Notes, due October 2017	20.0	-
7.17% Notes, due June 2007	20.0	20.0
6.17% Notes, due January 2001	15.0	-
7.37% Notes, due October 2015	22.0	22.0
6.73% Notes, due October 2002	26.0	26.0
6.62% Notes, due May 2005	20.0	20.0
6.50% Senior Notes, due August 2003 (less unamortized discount of \$.1)	49.9	49.9
8.70% Notes, due March 1998	-	10.0
9.71% Notes, due through September 2000 in annual installments of \$7.1	14.3	21.4
-	-	-
Total Utilities	187.2	169.3
-	-	-
Other:		
7.83% Senior Secured Notes, due through March 2008	8.2	8.6
-	-	-
Total long-term debt	904.4	869.0
Less current maturities	(13.6)	(24.2)
-	-	-
Total long-term debt due after one year	\$890.8	\$844.8
-	-	-

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Long-term debt due in fiscal years 1999 to 2003 follows:

	1999	2000	2001	2002	2003
Propane	\$ 6.1	\$18.3	\$77.3	\$78.5	\$ 74.4
Utilities	7.1	7.1	15.0	-	76.0
Other	.4	.4	.5	.5	.5
Total	\$13.6	\$25.8	\$92.8	\$79.0	\$150.9

PROPANE

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 its wholly owned subsidiary 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 million (including a \$35 million 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 million at September 30, 1998 and \$28 million 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 \$.5 million.

The Acquisition Facility provides the Operating Partnership with the ability to borrow up to \$75 million 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.

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 million 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.

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GENERAL PARTNER FACILITY. The Operating Partnership also has a revolving credit agreement with the General Partner under which it may borrow up to \$20 million 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 has agreed to contribute on an as needed basis through its subsidiaries up to \$20 million to the General Partner to fund such borrowings.

UTILITIES

REVOLVING CREDIT AGREEMENTS. At September 30, 1998, UGI Utilities had revolving credit agreements with four banks providing for borrowings of up to \$97 million through June 2001. These agreements may be extended for one-year periods, upon timely notice, unless the banks elect not to renew. UGI Utilities may borrow at various prevailing interest rates, including LIBOR. UGI Utilities pays quarterly commitment fees on these credit lines. UGI Utilities had borrowings under these agreements totaling \$68.4 million at September 30, 1998 and \$67 million at September 30, 1997, which we classify as bank loans. The weighted-average interest rates on bank loans were 5.90% at September 30, 1998 and 6.26% at September 30, 1997.

RESTRICTIVE COVENANTS. Certain of UGI Utilities' debt agreements restrict the incurrence of additional debt, require consolidated tangible net worth of at least \$125 million, and restrict the amount of payments for investments, redemptions of capital stock, prepayments of subordinated indebtedness and dividends.

4. INCOME TAXES

The provisions for income taxes consist of the following:

	1998	1997	1996
Current:			
Federal	\$19.6	\$36.7	\$16.6
State	4.7	9.1	5.0
Deferred	24.3	45.8	21.6
Investment credit amortization	10.5	(1.8)	12.4
	(.4)	(.4)	(.4)
Total income tax expense	\$34.4	\$43.6	\$33.6

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

	1998	1997	1996
Statutory federal tax rate	35.0%	35.0%	35.0%
Difference in tax rate due to:			
State income taxes, net of federal benefit	6.1	6.1	6.6
Nondeductible amortization of goodwill	6.2	4.9	6.5
Other, net	(2.6)	(1.7)	(3.8)
Effective tax rate	44.7%	44.3%	44.3%

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

	1998	1997
Excess book basis over tax basis of property, plant and equipment	\$162.3	\$158.4
Regulatory assets	24.6	20.3
Other	7.4	6.9
Gross deferred tax liabilities	194.3	185.6
Self-insured property and casualty liability	(11.0)	(11.2)
Employee-related benefits	(11.6)	(9.3)
Premium on long-term debt	(5.3)	(6.0)
Deferred investment tax credits	(4.1)	(4.3)

Power purchase agreement liability	(3.6)	-
Environmental accrual	(2.2)	(4.0)
Allowance for doubtful accounts	(2.4)	(3.2)
Other	(14.4)	(15.6)
-	-	-
Gross deferred tax assets	(54.6)	(53.6)
-	-	-
Deferred tax assets valuation allowance	-	.2
-	-	-
Net deferred tax liabilities	\$139.7	\$132.2
-	-	-

UGI Utilities had recorded deferred tax liabilities of approximately \$31.3 million as of September 30, 1998 and \$30.3 million as of September 30, 1997 pertaining to utility temporary differences, principally a result of accelerated tax depreciation, the tax benefits of which previously were or will be flowed through to ratepayers. These deferred tax liabilities have been reduced by deferred tax assets of \$4.1 million at September 30, 1998 and \$4.3 million at September 30, 1997, pertaining to utility deferred investment tax credits. UGI Utilities had recorded a regulatory income tax asset related to these net deferred taxes of \$46.5 million as of September 30, 1998 and \$44.4 million as of September 30, 1997. This regulatory income tax asset represents future revenues expected to be recovered through the ratemaking process. We will recognize this regulatory income tax asset in deferred tax expense as the corresponding temporary differences reverse and additional income taxes are incurred.

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The amount of federal operating loss carryforwards which were generated by a subsidiary prior to its acquisition totaled \$11.6 million at September 30, 1998. These operating loss carryforwards expire through the year 2010. The use of pre-acquisition operating loss carryforwards is subject to Internal Revenue Code limitations. We do not believe these limitations will affect our ability to utilize these carryforwards prior to their expiration.

5. EMPLOYEE RETIREMENT PLANS

DEFINED BENEFIT PENSION PLANS

We sponsor a defined benefit pension plan (UGI Utilities Plan) for employees of UGI, UGI Utilities, and certain of UGI's other wholly owned subsidiaries. Benefits under the UGI Utilities Plan are generally based on years of service and employee compensation during the last years of employment.

The components of net pension income for the UGI Utilities Plan include the following:

	1998	1997	1996

Service cost -- benefits earned during the period	\$ 3.4	\$ 2.8	\$ 3.1
Interest cost on projected benefit obligation	10.9	10.6	10.2
Actual return on plan assets	(2.1)	(40.3)	(16.3)
Net amortization and deferral	(14.1)	25.8	2.5

Net pension income	\$ (1.9)	\$ (1.1)	\$ (.5)

The following table sets forth the funded status of the UGI Utilities Plan and amounts recognized in our consolidated balance sheets at September 30:

	1998	1997

Projected benefit obligation:		
Vested benefits	\$(128.9)	\$(118.2)
Nonvested benefits	(8.1)	(6.7)

Accumulated benefit obligation	(137.0)	(124.9)
Effect of projected future salary levels	(27.8)	(24.2)

Projected benefit obligation	(164.8)	(149.1)
Plan assets at fair value	183.3	189.5

Excess of plan assets over projected benefit obligation	18.5	40.4
Unrecognized net gain	(3.9)	(26.9)
Unrecognized prior service cost	5.3	6.0
Unrecognized transition asset	(9.5)	(11.1)

Prepaid pension cost	\$ 10.4	\$ 8.4

The major actuarial assumptions used in determining the funded status of the UGI Utilities Plan as of September 30, 1998, 1997, and 1996, and net pension income for each of the years then ended, are as follows:

	1998	1997	1996

Funded status at September 30:			
Discount rate	6.9%	7.4 %	8.0 %
Rate of increase in salary levels	4.5	4.5	4.75
Net pension income for the year:			
Discount rate	7.4	8.0	7.5
Rate of increase in salary levels	4.5	4.75	4.5
Expected return on plan assets	9.5	9.5	9.5

UGI Utilities Plan's assets at September 30, 1998 consist principally of equity and fixed income mutual funds and investment-grade corporate and U.S. Government obligations.

We also sponsor unfunded retirement benefit plans for certain key employees. At September 30, 1998 and 1997, the projected benefit obligations of these plans were not material. We recorded expense for these plans of \$2.4 million in 1998, \$1.6 million in 1997, and \$1.1 million in 1996.

DEFINED CONTRIBUTION PLANS

We sponsor a 401(k) savings plan for eligible employees of UGI, UGI Utilities,

and certain of UGI's other wholly owned subsidiaries (Utilities Savings Plan). Generally, participants in the Utilities Savings Plan may contribute a portion of their compensation on a before-tax and after-tax basis. We may, at our discretion, match a portion of participants' contributions.

We also sponsor a 401(k) savings plan for eligible employees of the General Partner (AmeriGas Propane Savings Plan). Participants in the AmeriGas Propane 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, we also sponsored a noncontributory defined contribution pension plan for eligible employees of the General Partner (AmeriGas Propane Pension Plan). Our contributions to the AmeriGas Propane Pension Plan represented a percentage of each covered employee's salary. Effective October 1, 1996, we ceased contributing to the AmeriGas Propane Pension Plan and the assets were merged into the AmeriGas Propane Savings Plan.

The cost of benefits under the AmeriGas Propane Pension Plan and both of our savings plans totaled \$5.1 million in 1998, \$5.8 million in 1997, and \$5.9 million in 1996.

POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

We provide postretirement health care benefits to certain retirees and a limited number of active employees meeting certain age and service requirements. We also provide limited postretirement life insurance benefits to nearly all active and retired employees.

The components of net periodic postretirement benefit cost are as follows:

	1998	1997	1996
Service cost -- benefits earned during the period	\$.1	\$.1	\$.1
Interest cost on accumulated postretirement benefit obligation	1.2	1.9	2.2
Actual return on assets	(.2)	(.1)	-
Net amortization and deferral	.6	1.2	1.6
Net periodic postretirement benefit cost	1.7	3.1	3.9
Change in regulatory assets and liabilities	1.9	.5	(.1)
Net expense	\$3.6	\$3.6	\$3.8

The following table sets forth the actuarial present value and funded status of our postretirement health care and life insurance benefit plans at September 30:

	1998	1997
Accumulated postretirement benefit obligation:		
Retirees	\$(12.4)	\$(21.0)
Fully eligible active participants	(2.4)	(2.8)
Other active participants	(2.1)	(1.9)
	(16.9)	(25.7)
Plan assets at fair value	4.9	3.5
Unrecognized net gain	(6.0)	(3.4)
Unrecognized transition obligation	12.3	19.3
Accrued postretirement benefit cost	\$ (5.7)	\$ (6.3)

The decrease in the accumulated postretirement benefit obligation at September 30, 1998 is due to (1) a change in health care provider provisions and (2) a change in expected health care utilization rates.

The major actuarial assumptions used in determining the funded status of our postretirement health care and life insurance benefit plans at September 30, 1998, 1997, and 1996, and net periodic postretirement benefit costs for the years then ended, are as follows:

	1998	1997	1996
Funded status at September 30:			
Discount rate	6.9%	7.4%	8.0%
Health care cost trend rate	6.0-5.5	6.0-5.5	6.5-5.5
Net periodic postretirement benefit cost for the year:			
Discount rate	7.4	8.0	7.5
Health care cost trend rate	6.0-5.5	6.5-5.5	7.0-5.5
Expected return on trust assets	6.0	6.0	-

The ultimate health care cost trend rate of 5.5% in the table above is assumed for all years after 2007. Increasing the health care cost trend rate one percent increases the accumulated postretirement benefit obligations by \$.8 million at September 30, 1998 and \$1.8 million at September 30, 1997, and increases the net periodic postretirement benefit costs by \$.1 million in 1998, \$.1 million in 1997, and \$.2 million in 1996.

UGI Utilities has established an Employee Benefit Trust (VEBA) to pay retiree health care and life insurance benefits and to fund the UGI Utilities' postretirement benefit liability. VEBA investments, comprising money market funds, totaled \$4.9 million at September 30, 1998 and \$3.5 million at September 30, 1997.

Inventories comprise the following at September 30:

	1998	1997
Propane gas	\$34.8	\$47.6
Utility fuel and gases	24.5	26.0
Materials, supplies and other	14.2	15.4
Appliances for sale	4.4	6.6
Total inventories	\$77.9	\$95.6

7. SERIES PREFERRED STOCK

The UGI Series Preferred Stock, including both series subject to and series not subject to mandatory redemption, has 5,000,000 shares authorized for issuance. We had no shares of UGI Series Preferred Stock outstanding at September 30, 1998 or 1997.

UGI Utilities Series Preferred Stock, including both series subject to and series not subject to mandatory redemption, has 2,000,000 shares authorized for issuance. The holders of shares of UGI Utilities Series Preferred Stock have the right to elect a majority of UGI Utilities' Board of Directors (without cumulative voting) if dividend payments on any series are in arrears in an amount equal to four quarterly dividends. This election right continues until the arrearage has been cured. We have paid cash dividends at the specified annual rates on all outstanding UGI Utilities Series Preferred Stock.

UGI Utilities Series Preferred Stock subject to mandatory redemption comprises the following at September 30:

	1998	1997
\$7.75 Series, stated at involuntary liquidation value of \$100 per share, cumulative (200,000 shares outstanding)	\$20.0	\$20.0
\$1.80 Series, stated at involuntary liquidation value of \$23.50 per share, cumulative (7,963 shares redeemed April 1998)	-	.2
\$8.00 Series, stated at involuntary liquidation value of \$100 per share, cumulative (150,000 shares redeemed April 1998)	-	15.0
Total UGI Utilities Series Preferred Stock subject to mandatory redemption	20.0	35.2
Less current portion	-	(3.0)
Total UGI Utilities Series Preferred Stock due after one year	\$20.0	\$32.2

In April 1998, UGI Utilities (1) voluntarily redeemed 120,000 shares of its \$8.00 Series Preferred Stock at a redemption price of \$102.667 per share and (2) redeemed 30,000 shares of its \$8.00 Series Preferred Stock through a mandatory sinking fund at a price of \$100 per share. Also in April 1998, UGI Utilities voluntarily redeemed all 7,963 outstanding shares of its \$1.80 Series Preferred Stock at a redemption price of \$23.50 per share.

UGI Utilities is required to establish a sinking fund to redeem on October 1 in each year, commencing October 1, 2004, 10,000 shares of its \$7.75 Series Preferred Stock at a price of \$100 per share. The \$7.75 Series Preferred Stock is redeemable, in whole or in part, at the option of UGI Utilities on or after October 1, 2004, at a price of \$100 per share. All outstanding shares of \$7.75 Series Preferred Stock are subject to mandatory redemption on October 1, 2009, at a price of \$100 per share.

8. PREFERENCE STOCK PURCHASE RIGHTS

Holders of our Common Stock own one-half of one right (as described below) for each outstanding share of Common Stock. Each right entitles the holder to purchase one one-hundredth of a share of First Series Preference Stock, without par value, at an exercise price of \$120 per one one-hundredth of a share or, under the circumstances summarized below, to purchase the common stock described in the following paragraph. The rights are exercisable only if a person or group, other than certain underwriters:

1. acquires 20% or more of our Common Stock (Acquiring Person) or
2. announces or commences a tender offer for 30% or more of our Common Stock.

We are entitled to redeem the rights at five cents per right at any time before the earlier of:

1. the expiration of the rights in April 2006 or
2. ten days after a person or group has acquired 20% of our Common Stock if a majority of continuing Directors concur and, in certain circumstances, thereafter.

Each holder of a right, other than an Acquiring Person, is entitled to purchase, at the exercise price of the right, Common Stock having a market value of twice the exercise price of the right if:

1. an Acquiring Person merges with UGI or engages in certain other transactions with us or
2. a person acquires 40% or more of our Common Stock.

In addition, if, after we (or an Acquiring Person) publicly announce that an Acquiring Person has become such, UGI engages in a merger or other business combination transaction in which:

1. we are not the surviving corporation, or
2. we are the surviving corporation, but our Common Stock is changed or exchanged, or
3. 50% or more of our assets or earning power is sold or transferred,

then each holder of a right is entitled to purchase, at the exercise price of the right, common stock of the acquiring company having a market value of twice the exercise price of the right.

The rights have no voting or dividend rights and, until exercisable, have no dilutive effect on our earnings.

9. COMMON STOCK AND INCENTIVE STOCK AWARD PLANS

Common Stock share activity for 1996, 1997, and 1998 follows:

	Issued	Treasury	Outstanding
September 30, 1995	32,921,830	(4,366)	32,917,464
Issued:			
Employee and director plans	164,961	143,385	308,346
Dividend reinvestment plan	111,940	120,175	232,115
Reacquired	-	(321,700)	(321,700)
September 30, 1996	33,198,731	(62,506)	33,136,225
Issued:			
Employee and director plans	-	396,378	396,378
Dividend reinvestment plan	-	130,313	130,313
Reacquired	-	(800,900)	(800,900)
September 30, 1997	33,198,731	(336,715)	32,862,016
Issued:			
Employee and director plans	-	243,915	243,915
Dividend reinvestment plan	-	108,353	108,353
Acquisition	-	42,078	42,078
Reacquired	-	(433,100)	(433,100)
September 30, 1998	33,198,731	(375,469)	32,823,262

Under the 1997 SODEP, we may grant options to acquire a total of 1,500,000 shares of Common Stock to key employees. Generally, all options under the 1997 SODEP are fully vested and immediately exercisable on the date of grant. Under its predecessor plan, the 1992 SODEP, options vested ratably over a specified period. Options under both plans can be exercised no later than ten years from the date of grant. The exercise price for options granted under the 1997 SODEP may not be less than the fair market value of the Common Stock on the date of grant. In addition, the SODEP plans provide for the crediting of dividend equivalents to optionees' accounts during a specified period. Actual payment of dividend equivalents under the 1997 SODEP is contingent upon our total shareholder return relative to that of a group of peer companies during a specified three-year performance period ending December 31, 1999. No dividend equivalents were payable under the 1992 SODEP.

DIRECTORS' COMPENSATION PLANS. The 1997 UGI Corporation Directors' Equity Compensation Plan (1997 Directors' Plan) provides for annual awards to each of our nonemployee Board of Directors of (1) 630 Units, each representing an interest equivalent to one share of Common Stock, and (2) Common Stock in lieu of cash for a portion of their annual retainer fee.

Participants may also elect to receive any portion of their meeting fees and the cash portion of their annual retainer in the form of Units. Directors who had accrued benefits under the former Retirement Plan for Outside Directors, which plan was terminated effective December 31, 1996, were awarded a total of 36,140 Units on January 1, 1997 equal in value to such accrued benefits. The 1997 Directors' Plan provides for the crediting of dividend equivalents to Unit holders' accounts, which amounts are converted to Units at the end of each calendar year based upon the fair market value of Common Stock on that date. All Units and dividend equivalents are fully vested when credited to a Director's account. Generally, Units will be converted to shares of Common Stock upon retirement or termination of service. We awarded 7,043 Units in 1998 and 7,225 Units in 1997 under the 1997 Directors' Plan relating to annual awards and deferred compensation.

Prior to January 1, 1997, nonemployee Directors participated in the 1992 Directors' Stock Plan (1992 Directors' Plan). Under the 1992 Directors' Plan, each year we granted an option to purchase 1,000 shares of Common Stock to each of our nonemployee Board Directors. In addition, we issued Common Stock to nonemployee Directors in lieu of a portion of their annual retainer fees.

1992 NON-QUALIFIED STOCK OPTION PLAN (1992 NON-QUALIFIED PLAN). Under the 1992 Non-Qualified Plan, as amended effective December 31, 1996, we may grant options to acquire a total of 500,000 shares of Common Stock to key employees who do not participate in the 1997 SODEP. The exercise price for options granted under the 1992 Non-Qualified Plan is the fair market value of the Common Stock on the date of grant. Generally, options granted on and after the amendment date of the plan are fully vested and immediately exercisable. For options granted prior to the amendment date, one-fifth of an optionee's options are exercisable for each full year of service completed after the date of grant. Options can be exercised no later than ten years from the date of grant.

1997 AMERIGAS PROPANE, INC. LONG-TERM INCENTIVE PLAN (1997 PROPANE PLAN). On October 28, 1996, the General Partner adopted the 1997 Propane Plan, effective October 1, 1996. Under the 1997 Propane Plan, the General Partner may grant the right to receive a total of 500,000 AmeriGas Partners Common Units to key employees, 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.

FAIR VALUE INFORMATION. The per share weighted-average fair value of stock options granted under all of our stock plans was \$1.98 during 1998, \$2.96 during 1997, and \$2.67 during 1996. These amounts were determined using the Black-Scholes option pricing model which values options based on the stock price at the grant date, the expected life of the option, the estimated volatility of the stock, expected dividend payments, and the risk-free interest rate over the expected life of the option. The assumptions we used for option grants during 1998, 1997 and 1996 are as follows:

	1998	1997	1996
Expected life of option	6 years	6 years	6 years
Expected volatility	16.2%	16.6%	19.2%
Expected dividend yield	6.0%	6.5%	6.3%
Risk-free interest rate	4.6%	6.0%	5.9%

We apply APB 25 and related interpretations in accounting for our stock-based employee compensation plans. We recognized, under the provisions of APB 25, total stock-based compensation expense (income) of \$1.0 million in 1998, \$3.6 million in 1997, and \$(3.7) million in 1996. If we had determined compensation cost under the fair value method prescribed by SFAS 123, net income and diluted earnings per share for 1998, 1997 and 1996 would have been as follows:

	1998	1997	1996
Net earnings:			
As reported	\$40.3	\$52.1	\$39.5
Pro forma	40.2	51.7	39.5
Diluted earnings per share:			

As reported	1.22	1.57	1.19
Pro forma	1.21	1.56	1.19

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STOCK OPTION ACTIVITY. Stock option transactions under all of our plans for 1996, 1997, and 1998 follow:

	Shares	Average Option Price

Shares under option --		
September 30, 1995	1,211,001	\$20.225

Granted	31,000	20.673
Exercised	(274,700)	20.123
Forfeited	(90,000)	20.125

Shares under option --		
September 30, 1996	877,301	20.307

Granted	653,750	22.686
Exercised	(348,050)	20.131
Forfeited	(8,000)	21.422

Shares under option --		
September 30, 1997	1,175,001	21.670

Granted	54,583	22.469
Exercised	(198,121)	20.650
Forfeited	(1,708)	23.962

Shares under option --		
September 30, 1998	1,029,755	21.905

Options exercisable 1996	647,868	20.326
Options exercisable 1997	1,140,958	21.432
Options exercisable 1998	1,014,755	21.921

For options outstanding as of September 30, 1998, the exercise prices range from \$18.625 to \$26.250. The weighted-average remaining contractual life of these options is 6.9 years. At September 30, 1998, 1,068,242 shares of Common Stock were available for future option grants under all of our stock option plans.

Effective October 1, 1997, we implemented a stock ownership policy (Stock Ownership Policy) for executives and key employees. Under the terms of the Stock Ownership Policy, executives and certain key employees are required to own Common Stock having a fair value equal to 40% to 450% of their base salaries. Participants have from three months to three years to comply with the Stock Ownership Policy. We offer full recourse, interest-bearing loans to employees in order to assist them in meeting the ownership requirements. The loans bear interest at an annual rate of 4%. Each loan may not exceed ten years and is collateralized by the Common Stock purchased. At September 30, 1998, loans outstanding totaled \$3.7 million.

10. PARTNERSHIP DISTRIBUTIONS

The Partnership makes distributions to its partners approximately 45 days after the end of each fiscal quarter in a total amount equal to its Available Cash 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 million plus \$42.9 million of cash on hand as of April 19, 1995, the formation date of the Partnership, 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 million plus \$42.9 million of cash on hand as of April 19, 1995, 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.

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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.

11. COMMITMENTS AND CONTINGENCIES

We lease various buildings and transportation, data processing and office equipment under operating leases. Certain of our leases contain renewal and purchase options and also contain escalation clauses. Our aggregate rental expense for such leases was \$33.5 million in 1998, \$27.8 million in 1997, and \$27.1 million in 1996.

Minimum future payments under operating leases that have initial or remaining noncancelable terms in excess of one year are as follows:

	1999	2000	2001	2002	2003	After 2003
Propane	\$25.4	\$20.2	\$17.1	\$12.9	\$ 9.6	\$19.4
Utilities	4.2	3.5	3.0	2.8	2.4	3.0
Other	.1	.1	.1	.1	-	-
Total	\$29.7	\$23.8	\$20.2	\$15.8	\$12.0	\$22.4

Gas Utility has gas supply agreements with producers and marketers that expire at various dates through 2000. Gas Utility also has agreements for firm pipeline transportation and storage capacity which Gas Utility may terminate at various dates through 2015. In addition, Gas Utility has short-term gas supply agreements which permit it to purchase certain of its gas supply needs on a firm or interruptible basis at spot market prices.

Electric Utility has a power supply agreement with PP&L under which PP&L supplies all the electric power required by Electric Utility, above that provided from other sources. The cost of electricity supplied by PP&L is based on PP&L's actual system costs. The percentage of Electric Utility's total electric system output supplied by PP&L was approximately 54% in 1998, 53% in 1997, and 52% in 1996. Electric Utility has provided notice to PP&L of its intention to terminate this agreement as of March 2001. Electric Utility also has short-term, fixed price power supply agreements to purchase all of the output of the 32-megawatt Montgomery County Resource Recovery Facility through December 31, 1999.

The Partnership enters into contracts to purchase propane and UGI Energy Services enters into contracts to purchase natural gas to meet a portion of their 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.

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 \$54.0 million. 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. The Partnership believes the probability that it 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 million, remain pending.

We, along with other companies, have been named as a potentially responsible party (PRP) in several administrative proceedings and private party recovery actions for the cleanup or recovery of costs associated with cleanup of various waste

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sites, including some Superfund sites. In addition, we have identified environmental contamination at several of our properties and have voluntarily undertaken investigation and, as appropriate, remediation of these sites in cooperation with appropriate environmental agencies or private parties.

The gas distribution business has been one of UGI Utilities' main businesses since it began in 1882. Prior to the construction of major natural gas pipelines in the 1950s, gas used for lighting and heating was produced at manufactured gas plants (MGPs) from processes involving coal, coke or oil. Some constituents of coal tars produced from this process are today considered hazardous substances under the Superfund Law and may be located at these sites. At sites where a former subsidiary of UGI Utilities operated a MGP, we believe that UGI Utilities should not have significant liability because UGI Utilities generally is not legally liable for the obligations of its subsidiaries. Under certain circumstances, however, a court could find a parent company liable for environmental damage at sites owned by a subsidiary company when the parent company either (1) itself operated the facility causing the environmental damage or (2) otherwise so controlled the subsidiary that the subsidiary's separate corporate form should be disregarded. There could be, therefore, significant future costs of an uncertain amount associated with environmental damage caused by MGPs that UGI Utilities owned or directly operated, or that were owned or operated by former subsidiaries of UGI Utilities, if a court were to conclude that the subsidiary's separate corporate form should be disregarded. In many circumstances where UGI Utilities may be liable, we may not be able to reasonably quantify expenditures because of a number of factors. These factors include the various costs associated with potential remedial alternatives, the unknown number of other potentially responsible parties involved and their ability to contribute to the costs of investigation and remediation, and changing environmental laws and regulations.

In addition to these environmental matters, there are other pending claims and legal actions arising in the normal course of our businesses. We cannot predict with certainty the final results of environmental and other 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.

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. The carrying amounts and estimated fair values of our long-term debt and UGI Utilities Series Preferred Stock at September 30 are as follows:

	Carrying Amount	Estimated Fair Value

1998:		
Long-term debt:		
Propane	\$709.0	\$772.0
Utilities	187.2	193.0
Other	8.2	9.1
UGI Utilities Series Preferred Stock	20.0	24.0
1997:		
Long-term debt:		
Propane	\$691.1	\$737.0
Utilities	169.3	173.0
Other	8.6	9.2
UGI Utilities Series Preferred Stock	35.2	36.0

We estimate the fair value of long-term debt by using current market prices and by discounting future cash flows using rates available for similar type debt. The estimated fair value of UGI Utilities Series Preferred Stock is based on the fair value of redeemable preferred stock with similar credit ratings and redemption features.

We have financial instruments such as short-term investments and trade accounts receivable which could expose us to concentrations of credit risk. We limit our credit risk from short-term investments by investing only in investment-grade commercial paper and in U.S. Government securities. 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 the Partnership entered into an interest rate protection agreement covering \$50 million 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 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 \$(2.4) million at September 30, 1998.

UGI Energy Services uses exchange traded natural gas futures contracts to manage price risk associated with fluctuations in the price of natural gas that we sell to our customers under firm commitments. At September 30, 1998, UGI Energy Services held natural gas futures contracts with a total notional amount of \$28.6 million maturing through March 2000. At September 30, 1997, UGI Energy Services held futures contracts with a total notional amount of \$15.1 million. Net deferred gains on such contracts totaled \$.2 million at September 30, 1998 and \$2.1 million at September 30, 1997.

The Partnership is 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, the Partnership was a party to price swap agreements with a total notional amount of \$11.7 million.

UGI CORPORATION 1998 ANNUAL REPORT

In addition, the Partnership held zero-cost collars for propane having a total notional ceiling amount of \$11.8 million and a total notional floor amount of \$9.3 million. 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	\$ (6.9)	\$ (6.3)	\$ (4.0)
Loss on Partnership's interest rate protection agreements	4.0	-	-
Gain on sales of investments	(2.3)	(8.2)	-
Gain on sales of fixed assets	(2.0)	(1.1)	(1.9)
Other	(5.5)	(7.0)	(6.8)
Total other income, net	\$(12.7)	\$(22.6)	\$(12.7)

14. SEGMENT INFORMATION

Please refer to the schedule on page 22 for information on revenues, operating income, identifiable assets, depreciation and amortization, and capital expenditures for our business segments for 1998, 1997 and 1996.

15. 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 businesses.

	December 31,		March 31,		June 30,		September 30,	
	1997	1996	1998	1997(a)	1998	1997(b)	1998(c)	1997(d)
Revenues	\$471.2	\$529.6	\$488.3	\$576.4	\$255.2	\$284.1	\$225.0	\$251.9
Operating income (loss)	77.6	89.6	97.7	107.7	8.6	13.1	(13.7)	(10.5)
Net income (loss)	24.8	27.9	31.2	35.8	(3.9)	(1.2)	(11.8)	(10.4)
Net income (loss) per share -- diluted	.75	.84	.94	1.08	(.12)	(.04)	(.36)	(.32)

- (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 \$4.7 million and net income by \$1.6 million or \$.05 per share.
- (b) Includes gain from sale of UTI Energy Corp. Common Stock which increased operating income by \$2.1 million and decreased net loss by \$1.4 million or \$.04 per share.
- (c) Includes loss from the Partnership's interest rate protection agreements which increased operating loss by \$4.0 million and net loss by \$1.4 million or \$.04 per share. 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.
- (d) Includes gain from sale of UTI Energy Corp. Common Stock which decreased operating loss by \$1.4 million and net loss by \$.9 million or \$.03 per share.

The Company's consolidated financial statements and other financial information contained in this Annual Report are prepared by management, 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 Company maintains a system of internal controls. Management 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 Company's 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 the Company's internal audit staff.

The Audit Committee of the Board of Directors is composed of two members, neither of whom is an employee of the Company. This Committee is responsible 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 Company'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 and ratified by the shareholders, 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
Lon R. Greenberg
Chief Executive Officer

/s/ Anthony J. Mendicino
Anthony J. Mendicino
Chief Financial Officer

/s/ Michael J. Cuzzolina
Michael J. Cuzzolina
Chief Accounting Officer

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
UGI Corporation

We have audited the accompanying consolidated balance sheets of UGI Corporation and subsidiaries as of September 30, 1998 and 1997, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. 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. The consolidated statements of income, stockholders' equity and cash flows of UGI Corporation and subsidiaries for the year ended September 30, 1996, were audited by other auditors whose report dated November 22, 1996, expressed an unqualified opinion on those statements.

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 UGI Corporation and subsidiaries as of September 30, 1998 and 1997, and the results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles.

/s/ Arthur Andersen LLP

Chicago, Illinois
November 13, 1998

Financial Review - page 13

Photograph of Mr. Anthony J. Mendicino, Vice President-Finance and Chief Financial Officer, UGI Corporation.

Financial Review - page 17

Pie Chart of sources of cash for UGI Corporation reflecting in millions:

cash provided by operations of \$178.5;
cash provided by debt issued of \$59.4;
cash provided by disposals of assets of \$7.9;
cash provided by common stock issued of \$8.5.

Pie Chart of uses of cash for UGI Corporation reflecting in millions:

cash used for dividends and distributions of \$86.6;
cash used for capital expenditures of \$69.2;
cash used for debt repayments of \$40.3;
cash used for short-term investments of \$16.4;
cash used for redemption of UGI Utilities Preferred Stock of \$15.5;
cash used for common stock repurchased of \$11.3;
cash used for acquisitions of \$8.1;
cash used for other uses of \$2.3;
cash used for investments in joint venture partnerships of \$2.0.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 8-K/A

AMENDMENT NO. 1 TO
CURRENT REPORT DATED JULY 11, 1997

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

JULY 11, 1997
(DATE OF REPORT)

UGI CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

PENNSYLVANIA	1-11071	23-2668356
(STATE OR OTHER JURISDICTION OF INCORPORATION)	(COMMISSION FILE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

460 N. GULPH ROAD
KING OF PRUSSIA, PENNSYLVANIA 19406
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

(610) 337-1000
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

ITEM 4. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT

In May 1996, Coopers & Lybrand L.L.P. ("C&L") was appointed by the Audit Committee of the Board of Directors as the Company's independent public accountants for the year ending September 30, 1997. That appointment was approved by the Board of Directors and subsequently ratified by the Company's shareholders at the Annual Meeting of Shareholders on February 25, 1997.

In May 1997, the staff of the Securities and Exchange Commission (the "Commission"), notified the Company that for the year ending September 30, 1997, the Company's principal auditor must audit and assume the responsibility for reporting on at least 50% of the assets and revenues of the Company on a consolidated basis. As stated in their reports on the consolidated financial statements of UGI Corporation and subsidiaries for each of the two most recent fiscal years, C&L did not audit the consolidated financial statements of AmeriGas Propane, Inc. and subsidiaries ("AmeriGas Propane") as of September 30, 1996 and 1995 and for the year ended September 30, 1996 and the period from April 19, 1995 to September 30, 1995, which statements reflected total assets and revenues constituting 65 and 68 percent, and 65 and 31 percent, respectively, of the related consolidated totals of the Company. Those AmeriGas Propane financial statements were audited by Arthur Andersen LLP ("AA"). AA furnished its reports on those financial statements to C&L. C&L's reports on the Company's consolidated financial statements for the two most recent fiscal years, in so far as they relate to amounts included for AmeriGas Propane, are based solely on the reports of AA. The reports contained no adverse opinion and were not qualified or modified as to uncertainty, audit scope, or accounting principles. Relying on the reports of AA, C&L was satisfied that it was qualified to act as the Company's principal auditor.

In response to the comments of the staff of the Commission, management engaged AA as the Company's independent public accountant (principal auditor), effective July 11, 1997, to examine and report on the consolidated financial statements of the Company for fiscal year 1997, and the prior engagement of C&L as the Company's independent auditor was terminated. The decision to change accountants was not recommended or approved by the Audit Committee of the Board of Directors, however, it was ratified by the Board of Directors at the July 29, 1997 Board meeting.

The Company is not aware of any disagreements with C&L during the Company's two most recent fiscal years and through the date of this report on any matters of accounting principles or practices, financial statement disclosures, or auditing scope and procedures which, if not resolved to the satisfaction of C&L, would have caused C&L to make reference to the matters in their reports.

During the Company's two most recent fiscal years and through the date of this report, the Company has had no reportable events as defined in Item 304 (a) (1)(v) of Regulation S-K.

The Company has requested that C&L furnish it with a letter addressed to the Securities and Exchange Commission stating whether C&L agrees with the above statements. A copy of that letter dated August 1, 1997 is filed as Exhibit 16 to this Amendment No. 1 on Form 8-K/A.

During the Company's two most recent fiscal years ended September 30, 1996 and September 30, 1995 and through the date of engagement of AA, the Company has not consulted with AA regarding any of the matters specified in Item 304 (a) (2) of Regulation S-K.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS
(c) Exhibits

(16) Letter to the Securities and Exchange Commission from Coopers & Lybrand L.L.P., dated August 1, 1997.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

UGI CORPORATION
(REGISTRANT)

By: /s/ Brendan P. Bovaird

Brendan P. Bovaird
Vice President and General Counsel

Date: August 4, 1997

EXHIBIT INDEX

Exhibit No. - - - - -	Description - - - - -
(16)	Letter to the Securities and Exchange Commission from Coopers & Lybrand L.L.P. dated August 1, 1997

Coopers & Lybrand L.L.P. 101 East Kennedy Boulevard telephone (813)229-0221
Suite 1500
Tampa, Florida 33602-5194 facsimile (813)229-3646

a professional services firm

August 1, 1997

Securities and Exchange Commission
450 5th Street, N.W.
Washington, DC 20549

Gentlemen:

We have read the statements made by UGI Corporation (copy attached), which we understand will be filed with the Commission, pursuant to Item 4 of Form 8-K, as part of the Company's Report on Form 8-K/A dated July 11, 1997. We agree with the statements concerning our Firm in such Form 8-K/A.

Very truly yours,

/s/ Coopers & Lybrand L.L.P.

UGI CORPORATION
SUBSIDIARIES

SUBSIDIARY	OWNERSHIP	STATE OF INCORPORATION
AMERIGAS, INC.	100%	PA
FOUR FLAGS DRILLING COMPANY, INC.	100%	PA
Four Flags Holding Company	100%	DE
AMERIGAS PROPANE, INC.*	100%	PA
AmeriGas Partners, L.P.	(1)	DE
AmeriGas Finance Corp.	100%	DE
AmeriGas Propane, L.P.	98.9899%	DE
limited partner interest		
AmeriGas Propane Parts & Service, Inc.	100%	PA
Petrolane Offshore Limited	100%	BM
AmeriGas Technology Group, Inc.	100%	PA
Petrolane Incorporated	100%	PA
ASHTOLA PRODUCTION COMPANY	100%	PA
CRYOTEX, INCORPORATED	100%	DE
UGI ETHANOL DEVELOPMENT CORPORATION	100%	PA
NORTHFIELD HOLDING COMPANY	100%	DE
UGI ENTERPRISES, INC.	100%	PA
Eastfield International Holdings, Inc.	100%	DE
UGI ENERGY SERVICES, INC.	100%	PA
Energy Services Holding Company	100%	DE
UGI POWER SUPPLY, INC.	100%	PA
UGI INTERNATIONAL ENTERPRISES, INC.	100%	PA
UGI BLACK SEA ENTERPRISES, INC.	100%	PA
UGI INTERNATIONAL (ROMANIA), INC.	100%	PA
UGI ROMANIA, INC.	100%	PA

UGI CORPORATION
SUBSIDIARIES

SUBSIDIARY	OWNERSHIP	STATE OF INCORPORATION
UGI INTERNATIONAL (CHINA), INC.	100%	DE
UGI CHINA, INC.	100%	DE
ChinaGas Partners, L.P.	(2)	DE
Nantong LPG Company, LLC	100%	DE
UGI SOUTHWEST CHINA DEVELOPMENT COMPANY, LLC	100%	DE
HEARTH USA, INC.	100%	DE
UGI PROPERTIES, INC.	100%	PA
UGI UTILITIES, INC.	100%*	PA
UGI DEVELOPMENT COMPANY	100%	PA
UNITED VALLEY INSURANCE COMPANY	100%	VT

(1) AmeriGas Propane, Inc. and its subsidiary, Petrolane Incorporated, hold a combined 58.6% interest in AmeriGas Partners, L.P. and its subsidiary AmeriGas Propane, L.P.

(2) General partner interest held by UGI International (China), Inc.; limited partner interest held by UGI China, Inc.

* Sole General Partner of each of AmeriGas Partners, L.P. and AmeriGas Propane, L.P.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports dated November 13, 1998, on the consolidated financial statements and financial statement schedules of UGI Corporation and subsidiaries for the years ended September 30, 1998 and 1997, included (or incorporated by reference) in UGI Corporation's Annual Report on Form 10-K for the fiscal year ended September 30, 1998, into UGI Corporation's previously filed S-8 Registration Statement No. 33-47319; Form S-3 Registration Statement No. 33-78776; and Form S-8 Registration Statement Nos. 33-61722, 333-22305 and 333-37093.

Arthur Andersen LLP
Chicago, Illinois
December 22, 1998

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated November 22, 1996, on the consolidated financial statements of AmeriGas Propane, Inc. and subsidiaries for the fiscal year ended September 30, 1996, included in UGI Corporation's Annual Report on Form 10-K for the fiscal year ended September 30, 1998, into UGI Corporation's previously filed S-8 Registration Statement No. 33-47319; Form S-3 Registration Statement No. 33-78776; and Form S-8 Registration Statement Nos. 33-61722, 333-22305 and 333-37093.

Arthur Andersen LLP
Chicago, Illinois
December 22, 1998

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of UGI Corporation on Form S-8 (File No. 33-47319), Form S-3 (File No. 33-78776), Form S-8 (File No. 33-61722), Form S-8 (File No. 333-22305) and Form S-8 (File No. 333-37093) of our report dated November 22, 1996, on our audit of the consolidated financial statements and financial statement schedules of UGI Corporation and subsidiaries for the year ended September 30, 1996, which report is included in UGI Corporation's Annual Report on Form 10-K for the year ended September 30, 1998.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
December 22, 1998

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT OF UGI CORPORATION 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 UGI CORPORATION'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED SEPTEMBER 30, 1998.

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UGI CORPORATION
1,000

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	SEP-30-1998
	OCT-01-1997
	SEP-30-1998
	66,600
	81,800
	89,700
	7,900
	77,900
	350,600
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	2,074,600
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	890,800
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	394,300
2,074,600	(27,200)
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1,439,700	
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	40,300
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	1.22