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

FORM 10-K/A

(MARK ONE)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-4174

THE WILLIAMS COMPANIES, INC.
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	73-0569878 (I.R.S. Employer Identification No.)
ONE WILLIAMS CENTER, TULSA, OKLAHOMA (Address of principal executive offices)	74172 (Zip Code)

Registrant's telephone number, including area code: (918) 573-2000

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, $1.00 par value Preferred Stock Purchase Rights	New York Stock Exchange and the Pacific Stock Exchange

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 the registrant's voting stock held by nonaffiliates as of the close of business on March 15, 2000, was approximately $20 billion.

The number of shares of the registrant's Common Stock outstanding at March 15, 2000, was 441,540,962, excluding 6,311,910 shares held by Williams.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement prepared for the solicitation of proxies in connection with the Annual Meeting of Stockholders of Williams for 2000 are incorporated by reference in Part III.

EXPLANATORY NOTE

Effective first-quarter 2000, Communications realigned its operations into four business units and certain marketing activities of the Alaska refinery were transferred from Energy Marketing & Trading to Petroleum Services. This Annual Report on Form 10-K/A amends and restates information previously reported in the Company's Annual Report on Form 10-K, filed March 28, 2000 to reflect the realignment of Communications' business operations and the transfer of the marketing activities of the Alaska refinery. The following Sections of Form 10-K have been amended herein:

Part I	Item 1.	Business
Part II	Item 7.	Management's Discussion & Analysis of Financial Condition

		and Results of Operations
Part II	Item 7a.	Market Risk Disclosures
Part II	Item 8.	Financial Statements and Supplementary Data
Part III	Item 14.	Exhibit 23(a), Exhibit 23(b)

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THE WILLIAMS COMPANIES, INC.

FORM 10-K

PART I

ITEM 1. BUSINESS

(a) GENERAL DEVELOPMENT OF BUSINESS

The Williams Companies, Inc. was incorporated under the laws of the State of Nevada in 1949 and was reincorporated under the laws of the State of Delaware in 1987. The principal executive offices of Williams are located at One Williams Center, Tulsa, Oklahoma 74172 (telephone (918) 573-2000).

On December 17, 1999, Williams Energy Services, a wholly owned subsidiary of Williams, completed the sale of Thermogas L.L.C. to Ferrellgas Partners L.P. for $443.7 million after Ferrellgas made an unsolicited offer to purchase Thermogas, the wholly owned subsidiary through which Williams had engaged in the retail distribution of propane. See Note 7 of Notes to Consolidated Financial Statements.

On October 6, 1999, a subsidiary of Williams, Williams Communications Group, Inc., closed an initial public offering (IPO) by selling shares of its Class A Common Stock to the public. In separate private placements, SBC Communications, Intel Corporation, and Telefonos de Mexico S.A. de C.V. each purchased a portion of the Class A Common Stock. As of March 15, 2000, there were 68,195,470 shares of the Class A Common Stock outstanding, and Williams owned 395,434,965 shares of the Class B Common Stock of Williams Communications, representing an approximate 85.3 percent ownership interest. Holders of the Class A Common Stock are entitled to one vote per share, and Williams, as holder of the Class B Common Stock of Williams Communications, is entitled to ten votes per share.

On March 28, 1998, Williams acquired MAPCO Inc. in a stock-for-stock transaction based upon a fixed exchange ratio of 1.665 shares of Williams common stock and 0.555 associated preferred stock purchase rights for each share of MAPCO common stock and associated preferred stock purchase rights. See Note 2 of Notes to Consolidated Financial Statements.

(b) FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

See Part II, Item 8 -- Financial Statements and Supplementary Data.

(c) NARRATIVE DESCRIPTION OF BUSINESS

Williams, through Williams Gas Pipeline Company and Williams Energy Services and their subsidiaries, engages in the following types of energy-related activities:

- transportation and storage of natural gas and related activities through operation and ownership of five wholly owned interstate natural gas pipelines and several pipeline joint ventures;

- exploration and production of oil and gas through ownership of 1.05 Tcfe* of proved natural gas reserves primarily located in New Mexico, Wyoming, and Colorado;

- natural gas gathering, processing, and treating activities through ownership and operation of approximately 11,200 miles of gathering lines, ten natural gas treating plants, and 12 natural gas processing plants (one of which is partially owned);

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* The term "Mcf" means thousand cubic feet, "MMcf" means million cubic feet and "Bcf" means billion cubic feet. The term "Tcf" means trillion cubic feet. The term "Tcfe" means trillion cubic feet equivalent. All volumes of natural gas are stated at a pressure base of 14.73 pounds per square inch absolute at 60 degrees Fahrenheit. The term "Btu" means British Thermal Unit, "MMBtu" means one million British Thermal Units and "TBtu" means one trillion British Thermal Units. The term "Dth" means dekatherm. The term "MDth" means thousand dekatherms. The term "Mbbl" means one thousand barrels. The term "GWh" means gigawatt hour. The term "MW" means megawatt.

- natural gas liquids transportation through ownership and operation of approximately 13,360 miles of natural gas liquids pipeline;

- transportation of petroleum products and related terminal services through ownership or operation of approximately 9,170 miles of petroleum products pipeline and 75 petroleum products terminals;

- production and marketing of ethanol and bio-products through operation and ownership of two ethanol plants (one of which is partially owned);

- refining of petroleum products through operation and ownership of two refineries;

- light hydrocarbon/olefin transportation through 300 miles of pipeline in Southern Louisiana;

- ethylene production through a 5/12 interest in a 1.2 billion pound/year facility in Geismar, Louisiana;

- distributed power services;

- retail marketing through 227 convenience stores and 42 travel centers; and

- energy commodity marketing and trading.

Williams, through Williams Communications Group, Inc. and its subsidiaries, engages in the following types of communications-related activities:

- owner and operator of approximately 26,000 route miles of telecommunications fiber optic network;

- data-, voice-, and video-transmission related products and services;

- video services and other multimedia services for the broadcast industry;

- customer-premise voice and data equipment, sales, and services including installation, maintenance, and integration; and

- network integration and management services nationwide.

Williams, through subsidiaries, also directly invests in energy and telecommunications projects primarily in Canada, South America, Australia, and Lithuania and continues to explore and develop additional projects for international investments. It also invests in energy, telecommunications, and infrastructure development funds in Asia and Latin America.

Substantially all operations of Williams are conducted through subsidiaries. Williams performs certain management, legal, financial, tax, consultative, administrative, and other services for its subsidiaries and employs approximately 1,150 employees. Williams' principal sources of cash are from external financings, dividends and advances from its subsidiaries, investments, payments by subsidiaries for services rendered, and interest payments from subsidiaries on cash advances. The amount of dividends available to Williams from subsidiaries largely depends upon each subsidiary's earnings and operating capital requirements. The terms of certain subsidiaries' borrowing arrangements limit the transfer of funds to Williams.

On July 31, 1999, Williams completed the merger of Williams Holdings of Delaware, Inc., its wholly owned subsidiary, with and into itself and assumed all liabilities and obligations of Williams Holdings of Delaware, Inc.

To achieve organizational and operating efficiencies, Williams' interstate natural gas pipelines and pipeline joint venture investments are grouped together under its wholly owned subsidiary, Williams Gas Pipeline Company. The other energy operations are grouped into a wholly owned subsidiary, Williams Energy Services. The communications operations, including investments in international communications projects, are grouped into a majority owned subsidiary, Williams Communications Group, Inc. The international energy operations are grouped into a wholly owned subsidiary, Williams International Company. Item 1 of this report is formatted to reflect this structure.

WILLIAMS GAS PIPELINE COMPANY

Williams' interstate natural gas pipeline group, comprised of Williams Gas Pipeline Company and its subsidiaries, owns and operates a combined total of approximately 27,300 miles of pipelines with a total annual throughput of approximately 3,700 TBtu of natural gas and peak-day delivery capacity of approximately 15 Bcf of gas. The gas pipeline group consists of Transcontinental Gas Pipe Line Corporation, Northwest Pipeline Corporation, Kern River Gas Transmission Company, Texas Gas Transmission Corporation, and Williams Gas Pipelines Central, Inc. The gas pipeline group also holds minority interests in joint venture interstate and intrastate natural gas pipeline systems.

Williams' gas pipeline group has combined certain administrative functions, such as human resources, information services, technical services, and finance, of its operating companies in an effort to lower costs and increase efficiency. Although a single management team manages both Northwest Pipeline and Kern River and a single management team manages both Texas Gas and Central, each of these operating companies operates as a separate legal entity. Williams' gas pipeline group employs approximately 3,370 employees.

The gas pipeline group's transmission and storage activities are subject to regulation by the Federal Energy Regulatory Commission (FERC) under the Natural Gas Act of 1938 and under the Natural Gas Policy Act of 1978 (NGPA), and, as such, their rates and charges for the transportation of natural gas in interstate commerce, the extension, enlargement, or abandonment of jurisdictional facilities, and accounting, among other things, are subject to regulation. Each gas pipeline company holds certificates of public convenience and necessity issued by the FERC authorizing ownership and operation of all pipelines, facilities, and properties considered jurisdictional for which certificates are required under the Natural Gas Act. Each gas pipeline company is also subject to the Natural Gas Pipeline Safety Act of 1968, as amended by Title I of the Pipeline Safety Act of 1979, which regulates safety requirements in the design, construction, operation, and maintenance of interstate natural gas pipelines.

As a result of the MAPCO merger in 1998, Williams acquired an approximately 4.8 percent investment interest in Alliance Pipeline. On December 31, 1999, Williams acquired an additional 9.8 percent interest in Alliance Pipeline. Alliance consists of two proposed segments, a Canadian segment and a United States segment. Alliance has filed applications for approval with the FERC in the United States and the National Energy Board (NEB) in Canada, to construct and operate an approximately 1,800 mile natural gas pipeline system extending from northeast British Columbia to the Chicago, Illinois, area market center, where it will interconnect with the North American pipeline grid. On September 17, 1998, the FERC granted a Certificate of Public Convenience and Necessity (CPCN) for the United States portion of the Alliance pipeline, and on December 3, 1998, the NEB granted a CPCN for the Canadian portion. Construction began in the spring of 1999 with an anticipated in-service date of October 2000. Total estimated cost of the Alliance pipeline is approximately $3 billion. At December 31, 1999, Williams had invested approximately $131 million in Alliance.

Buccaneer Gas Pipeline Company, L.L.C., a wholly owned subsidiary of WGP, announced in March 1999, that it would accept requests for firm transportation service to be made available on a proposed new natural gas pipeline system extending from the Mobile Bay area in Alabama to markets in Florida. Buccaneer anticipates that its pipeline system will extend from a point near Transcontinental Gas Pipe Line Corporation's Station 82 in Coden, Alabama, across the Gulf of Mexico to the west coast of Florida just north of Tampa. The pipeline will continue onshore in an easterly direction to serve power generation plants and other markets across the central part of the state, and will terminate in Volusia County, Florida. Lateral pipelines will be constructed in accordance with market demand. Buccaneer filed for FERC approval of the project in October 1999. In February 2000, a subsidiary of Duke Energy acquired a 50 percent ownership interest in Buccaneer. The estimated capital cost of the project is approximately $1.5 billion, and the target in-service date is April 2002.

A business description of the principal companies in the interstate natural gas pipeline group follows.

TRANSCONTINENTAL GAS PIPE LINE CORPORATION

Transco is an interstate natural gas transportation company that owns a 10,500-mile natural gas pipeline system extending from Texas, Louisiana, Mississippi, and the offshore Gulf of Mexico through Alabama, Georgia, South Carolina, North Carolina, Virginia, Maryland, Pennsylvania, and New Jersey to the New York City metropolitan area. The system serves customers in Texas and eleven southeast and Atlantic seaboard states, including major metropolitan areas in Georgia, North Carolina, New York, New Jersey, and Pennsylvania. Effective May 1, 1995, Transco transferred the operation of certain production area facilities to Williams Field Services Group, Inc., an affiliated company.

Pipeline System and Customers

At December 31, 1999, Transco's system had a mainline delivery capacity of approximately 3.8 Bcf of gas per day from its production areas to its primary markets. Using its Leidy Line and market-area storage capacity, Transco can deliver an additional 2.9 Bcf of gas per day for a system-wide delivery capacity total of approximately 6.7 Bcf of gas per day. Excluding the production area facilities operated by Williams Field Services Group, Inc., Transco's system is composed of approximately 7,200 miles of mainline and branch transmission pipelines, 41 compressor stations, and seven storage locations. Compression facilities at a sea level-rated capacity total approximately 1.3 million horsepower.

Transco's major natural gas transportation customers are public utilities and municipalities that provide service to residential, commercial, industrial, and electric generation end users. Shippers on Transco's system include public utilities, municipalities, intrastate pipelines, direct industrial users, electrical generators, gas marketers, and producers. No customer accounted for more than ten percent of Transco's total operating revenues in 1999. Transco's firm transportation agreements are generally long-term agreements with various expiration dates and account for the major portion of Transco's business. Additionally, Transco offers interruptible transportation service under shorter term agreements.

Transco has gas storage capacity in five underground storage fields located on or near its system and/or market areas and operates three of these storage fields and two liquefied natural gas (LNG) storage facilities. The total gas storage capacity available to Transco and its customers is approximately 220 Bcf of gas. Storage capacity permits Transco's customers to inject gas into storage during the summer and off-peak periods for delivery during peak winter demand periods.

Expansion Projects

In 1999, Pine Needle LNG Company, LLC and Cardinal Pipeline Company, LLC, both of which are owned by wholly owned subsidiaries of Transco and several of its customers, completed construction of, and placed into service, two major projects, a LNG storage facility and the Cardinal Pipeline Project (Cardinal), respectively. Transco contributed $19 million to the total cost of the LNG storage facility which is located in Guilford County, North Carolina. The facility was placed into service in May 1999 and has 4 Bcf of storage capacity and 400 MMcf per day of withdrawal capacity. Wholly owned subsidiaries of Transco operate the facility and have a 35 percent ownership interest. On November 1, 1999, Cardinal Pipeline Company, LLC, a North Carolina limited liability company formed between wholly owned subsidiaries of Transco and three of Transco's North Carolina customers, placed Cardinal into service. Transco contributed $24 million to the total cost of this project which involved the acquisition of an existing 37-mile pipeline in North Carolina and construction of an approximately 67-mile extension of the pipeline to new interconnections near Clayton County, North Carolina. This pipeline provides transportation service of up to 270 MMcf per day of natural gas. Transco's wholly-owned subsidiary has a 45 percent ownership interest in Cardinal and a separate wholly-owned subsidiary of Transco is the operator of Cardinal.

In 1999, Cumberland Gas Pipeline Company, a partnership between wholly-owned subsidiaries of Transco and AGL Resources Inc., decided not to pursue its pipeline project at this time. In lieu of the project, Transco intends to expand the capacity of its North Georgia extension as part of the SouthCoast Expansion Project (see below) to meet the firm transportation service requirements of its shippers.

On May 13, 1998, Transco filed an application with the FERC for approval to construct and operate mainline and Leidy Line facilities (MarketLink) to create an additional 676 MMcf of firm transportation capacity per day to serve increased demand in the mid-Atlantic and south Atlantic regions of the United

States by a targeted in-service date of November 1, 2000. The estimated cost of the proposed facilities is $529 million. On December 17, 1999, the FERC issued an interim order giving Transco conditional approval for MarketLink, along with the Independence Pipeline Project, which is described below, and ANR Pipeline Company's Supply Link Project but withholding final certificate authorization until Independence Pipeline Company (Independence) and ANR Pipeline Company (ANR) file long-term, executed contracts with nonaffiliated shippers for at least 35 percent of the capacity of their respective projects. While the FERC has treated the three projects as interrelated, should Independence and ANR fail to meet the executed contract conditions, the interim order states that Transco may amend its MarketLink project to go forward on a stand-alone basis. Once construction begins, the order also imposed a number of additional environmental conditions, beyond those recommended in the Final Environmental Impact Statement. Transco has filed for rehearing of the interim order.

In March 1997, as amended in December 1997, Independence filed an application with FERC for approval to construct and operate a new pipeline consisting of approximately 400 miles of 36-inch pipe from ANR Pipeline Company's existing compressor station at Defiance, Ohio to Transco's facilities at Leidy, Pennsylvania. The Independence Pipeline Project is proposed to provide approximately 916 MMcf per day of firm transportation capacity by a requested in-service date of November 2000. Independence is owned equally by wholly-owned subsidiaries of Transco, ANR, and National Fuel Gas Company. The estimated cost of the project is $678 million, and Transco's equity contributions are estimated to be approximately $68 million based on its expected one-third ownership interest in the project. As mentioned above in connection with the MarketLink Project, on December 17, 1999 the FERC gave conditional approval for the Independence Pipeline project, subject to Independence filing long-term, executed contracts with nonaffiliated shippers for at least 35 percent of the capacity of the project. Also, the FERC imposed a number of additional environmental conditions once construction begins on the project. Independence has filed for rehearing of the interim order.

In April 1999, Transco filed an application with the FERC for its approval of the SouthCoast Expansion Project, which is designed to create approximately 200 MMcf per day of additional firm transportation capacity on Transco's system from the terminus of Transco's existing Mobile Bay Lateral in Choctaw County, Alabama, to delivery points in Transco's Rate Zone 4 (Alabama and Georgia). The project has a target in-service date of November 1, 2000 and an estimated cost of approximately $108 million.

In April 1999, Transco announced its Sundance Expansion Project, which would create approximately 228 MMcf per day of additional firm transportation capacity from Transco's Station 65 in Louisiana to delivery points in Georgia, South Carolina and North Carolina. Transco plans to file for FERC approval of the project in the first quarter of 2000. The project has a target in-service date of May 2002 and an estimated cost of approximately $129 million.

Operating Statistics. The following table summarizes transportation data for the periods indicated (in TBtu):

	1999	1998	1997
Market-area deliveries:			
Long-haul transportation	820	858	940
Market-area transportation	623	522	439
Total market-area deliveries	1,443	1,380	1,379
Production-area transportation	222	214	242
Total system deliveries	1,665	1,594	1,621
Average Daily Transportation Volumes	4.6	4.4	4.4
Average Daily Firm Reserved Capacity	6.3	5.8	5.5

Transco's facilities are divided into seven rate zones. Four are located in the production area, and three are located in the market area. Long-haul transportation involves gas that Transco receives in one of the production-area zones and delivers in a market-area zone. Market-area transportation involves gas that Transco both receives and delivers within the market-area zones. Production-area transportation involves gas that Transco both receives and delivers within the production-area zones.

NORTHWEST PIPELINE CORPORATION

Northwest Pipeline is an interstate natural gas transportation company that owns and operates a natural gas pipeline system extending from the San Juan Basin in northwestern New Mexico and southwestern Colorado through Colorado, Utah, Wyoming, Idaho, Oregon, and Washington to a point on the Canadian border near Sumas, Washington. Northwest Pipeline provides services for markets in California, New Mexico, Colorado, Utah, Nevada, Wyoming, Idaho, Oregon, and Washington directly or indirectly through interconnections with other pipelines.

Pipeline System and Customers

At December 31, 1999, Northwest Pipeline's system, having a mainline delivery capacity of approximately 2.9 Bcf of gas per day, was composed of approximately 3,900 miles of mainline and branch transmission pipelines and 41 compressor stations having sea level-rated capacity of approximately 318,000 horsepower.

In 1999, Northwest Pipeline transported natural gas for a total of 156 customers. Transportation customers include distribution companies, municipalities, interstate and intrastate pipelines, gas marketers, and direct industrial users. The two largest customers of Northwest Pipeline in 1999 accounted for approximately 15.2 percent and 13.6 percent, respectively, of its total operating revenues. No other customer accounted for more than ten percent of total operating revenues in 1999. Northwest Pipeline's firm transportation agreements are generally long-term agreements with various expiration dates and account for the major portion of Northwest Pipeline's business. Additionally, Northwest Pipeline offers interruptible transportation service under shorter term agreements.

As a part of its transportation services, Northwest Pipeline utilizes underground storage facilities in Utah and Washington enabling it to balance daily receipts and deliveries. Northwest Pipeline also owns and operates a LNG storage facility in Washington that provides a needle-peaking service for its system. These storage facilities have an aggregate delivery capacity of approximately 1,325 MMcf of gas per day.

Expansion Projects

The Columbia Gorge project provides firm transportation between a Stanfield, Washington, receipt point and a delivery point near Sumas, Washington, to serve the markets of BC Gas Utility Ltd. (a major gas distributor in lower British Columbia). Northwest Pipeline completed and placed into service on November 1, 1999, the first phase of 50,000 Dth per day. Total cost to complete the first phase was approximately $16 million.

Northwest Pipeline owns a one-third interest in the Jackson Prairie storage facility located in the state of Washington. In March 1998, Northwest Pipeline filed for certificate authority to realign authorized storage capacity for system balancing by replacing 3.04 Bcf of existing firm storage capacity at the Clay Basin storage facility located in eastern Utah (and 25.3 MMcf per day of associated firm deliverability) with 1.067 Bcf of Jackson Prairie expansion capacity (and 100 MMcf per day of associated firm deliverability). The FERC order authorizing expansion of the Jackson Prairie storage facility was received and accepted the last week of September 1998. The project was placed in service on November 1, 1999. The total cost of Northwest Pipeline's share of the expansion project was approximately $10 million.

Operating Statistics. The following table summarizes transportation data for the periods indicated (in TBtu):

	1999	1998	1997
Transportation Volumes	708	732	714
Average Daily Transportation Volumes	1.9	2.0	2.0
Average Daily Firm Reserved Capacity	2.5	2.6	2.5

KERN RIVER GAS TRANSMISSION COMPANY

Kern River is an interstate natural gas transportation company that owns and operates a natural gas pipeline system extending from Wyoming through Utah and Nevada to California. Gas transported on the Kern River pipeline is used in enhanced oil recovery operations in the heavy oil fields and other markets in California. Gas is also transported to other natural gas consumers in Utah, southern Nevada and southern California for use in the production of electricity, cogeneration of electricity and steam and other applications. The system commenced operations in February 1992.

Pipeline System and Customers

At December 31, 1999, Kern River's system was composed of approximately 707 miles of mainline and branch transmission pipelines and five compressor stations having a mainline designed delivery capacity of approximately 700 MMcf of gas per day. The pipeline system interconnects with the pipeline facilities of another pipeline company at Daggett, California. From the point of interconnection, Kern River and the other pipeline company have a common 219-mile pipeline which is owned 63.6 percent by Kern River and 36.4 percent by the other pipeline company, as tenants in common, and is designed to accommodate the combined throughput of both systems. This common facility has a designed delivery capacity of 1.1 Bcf of gas per day.

In 1999, Kern River transported natural gas for customers in California, Nevada, and Utah. Kern River transported gas for use in enhanced oil recovery operations in the heavy oil fields in California and transported to other natural gas consumers in Utah, southern Nevada, and southern California for use in the production of electricity, cogeneration of electricity and steam and other applications. The three largest customers of Kern River in 1999 accounted for approximately 18 percent, 14 percent and 13 percent, respectively, of its total operating revenues. No other customer accounted for more than ten percent of total operating revenues in 1999. Kern River transports natural gas for customers under firm long-term transportation agreements totaling 696 MMcf of gas per day.

Operating Statistics. The following table summarizes transportation data for the periods indicated (in TBtu):

	1999	1998	1997
Transportation Volumes	303	299	285
Average Daily Transportation Volumes	.83	.82	.78
Average Daily Firm Reserved Capacity	.72	.72	.73

TEXAS GAS TRANSMISSION CORPORATION

Texas Gas is an interstate natural gas transportation company that owns and operates a natural gas pipeline system extending from the Louisiana Gulf Coast area and eastern Texas and running generally north and east through Louisiana, Arkansas, Mississippi, Tennessee, Kentucky, and Indiana to Ohio, with smaller diameter lines extending into Illinois. Texas Gas's direct market area encompasses eight states in the South and Midwest, and includes the Memphis, Tennessee; Louisville, Kentucky; Cincinnati and Dayton, Ohio; and Indianapolis, Indiana, metropolitan areas. Texas Gas also has indirect market access to the Northeast through interconnections with unaffiliated pipelines.

Pipeline System and Customers

At December 31, 1999, Texas Gas' system, having a mainline delivery capacity of approximately 2.8 Bcf of gas per day, was composed of approximately 5,900 miles of mainline and branch transmission pipelines and 32 compressor stations having a sea level-rated capacity totaling approximately 555,000 horsepower.

In 1999 Texas Gas transported natural gas to customers in Louisiana, Arkansas, Mississippi, Tennessee, Kentucky, Indiana, Illinois, and Ohio, and indirectly to customers in the Northeast. Texas Gas transported gas for 98 distribution companies and municipalities for resale to residential, commercial, and industrial end users.

Texas Gas provided transportation services to approximately 18 industrial customers located along its system. At December 31, 1999, Texas Gas had transportation contracts with approximately 570 shippers. Transportation shippers include distribution companies, municipalities, intrastate pipelines, direct industrial users, electrical generators, gas marketers, and producers. The largest customer of Texas Gas in 1999 accounted for approximately 13.4 percent of its total operating revenues. No other customer accounted for more than ten percent of total operating revenues in 1999. Texas Gas' firm transportation agreements are generally long-term agreements with various expiration dates and account for the major portion of Texas Gas's business. Additionally, Texas Gas offers interruptible transportation and storage services under agreements that are generally short-term.

Texas Gas owns and operates gas storage reservoirs in ten underground storage fields located on or near its system or market areas. The storage capacity of Texas Gas' certificated storage fields is approximately 177 Bcf of gas. Texas Gas' storage gas is used in part to meet operational balancing needs on its system, to meet the requirements of Texas Gas' firm and interruptible storage customers, and to meet the requirements of Texas Gas' no-notice transportation service, which allows Texas Gas' customers to temporarily draw from Texas Gas' storage gas to be repaid in-kind during the following summer season. A large portion of the gas delivered by Texas Gas to its market area is used for space heating, resulting in substantially higher daily requirements during winter months.

Operating Statistics. The following table summarizes transportation data for the periods indicated (in TBtu):

	1999	1998	1997
Transportation Volumes	749.6	752.4	773.6
Average Daily Transportation Volumes	2.1	2.1	2.1
Average Daily Firm Reserved Capacity	2.2	2.2	2.2

WILLIAMS GAS PIPELINES CENTRAL, INC.

Central, is an interstate natural gas transportation company that owns and operates a natural gas pipeline system located in Colorado, Kansas, Missouri, Nebraska, Oklahoma, Texas, and Wyoming. The system serves customers in seven states, including major metropolitan areas in Kansas and Missouri, its chief market areas.

Pipeline System and Customers

At December 31, 1999, Central's system, having a mainline delivery capacity of approximately 2 Bcf of gas per day, was composed of approximately 6,000 miles of mainline and branch transmission and storage pipelines and 44 compressor stations having a sea level-rated capacity totaling approximately 234,000 horsepower.

In 1999, Central transported natural gas to customers in Colorado, Kansas, Missouri, Nebraska, Oklahoma, Texas, and Wyoming. Central transported gas for 73 distribution companies and municipalities for resale to residential, commercial, and industrial end users in approximately 530 cities and towns. Central provided transportation services to approximately 283 industrial customers, federal and state institutions, and agricultural processing plants located principally in Kansas, Missouri, and Oklahoma. At December 31, 1999, Central had transportation contracts with approximately 166 shippers. Transportation shippers include distribution companies, municipalities, intrastate pipelines, direct industrial users, electrical generators, gas marketers, and producers.

In 1999, approximately 61 percent of Central's total operating revenues were generated from gas transportation services to Central's two largest customers, Kansas Gas Service Company, a division of Oneok, Inc. (approximately 31 percent), and Missouri Gas Energy Company (approximately 30 percent). Kansas Gas Service Company sells or resells gas to residential, commercial, and industrial customers principally in certain major metropolitan areas of Kansas. Missouri Gas Energy sells or resells gas to residential, commercial, and industrial customers principally in certain major metropolitan areas of Missouri. No other customer accounted for more than ten percent of operating revenues in 1999.

Central's firm transportation agreements have various expiration dates ranging from one to 20 years, with the majority expiring in three to eight years. Additionally, Central offers interruptible transportation services under shorter term agreements.

Central operates eight underground storage fields with an aggregate gas storage capacity of approximately 43 Bcf and an aggregate delivery capacity of approximately 1.2 Bcf of gas per day. Central's customers inject gas into these fields when demand is low and withdraw it to supply their peak requirements. During periods of peak demand, approximately two-thirds of the firm gas delivered to customers is supplied from these storage fields. Storage capacity enables Central's system to operate more uniformly and efficiently during the year.

Operating Statistics. The following table summarizes transportation data for the periods indicated (in TBtu):

	1999	1998	1997
Transportation Volumes	324	329	337
Average Daily Transportation Volumes	.9	.9	.9
Average Daily Firm Reserved Capacity	2.2	2.1	2.1

REGULATORY MATTERS

Each interstate natural gas pipeline company has various regulatory proceedings pending. Each company establishes its rates primarily through the FERC's ratemaking process. Key determinants in the ratemaking process are (1) costs of providing service, including depreciation expense, (2) allowed rate of return, including the equity component of the capital structure and related income taxes, and (3) volume throughput assumptions. The FERC determines the allowed rate of return in each rate case. Rate design and the allocation of costs between the demand and commodity rates also impact profitability. As a result of these proceedings, the pipeline companies have collected a portion of their revenues subject to refund. See Note 12 of Notes to Consolidated Financial Statements for the amount accrued for potential refund at December 31, 1999.

Each of the interstate natural gas pipeline companies that were formerly gas supply merchants have undertaken the reformation of its respective gas supply contracts. None of the pipeline companies have any significant pending supplier take-or-pay, ratable-take, or minimum-take claims. In 1999, Central paid various parties amounts that had been accrued in 1998 to resolve its three remaining gas supply contracts. For information on outstanding issues with respect to contract reformation, gas purchase deficiencies, and related regulatory issues, see Note 19 of Notes to Consolidated Financial Statements.

COMPETITION

The FERC continues to regulate each of Williams' interstate natural gas pipeline companies pursuant to the Natural Gas Act and the NGPA. However, competition for natural gas transportation has intensified in recent years due to customer access to other pipelines, rate competitiveness among pipelines, customers' desire to have more than one transporter, and regulatory developments. Future utilization of pipeline capacity will depend on competition from other pipelines, use of alternative fuels, the general level of natural gas demand, and weather conditions. Electricity and distillate fuel oil are the primary competitive forms of energy for residential and commercial markets. Coal and residual fuel oil compete for industrial and electric generation markets. Nuclear and hydroelectric power and power purchased from electric transmission grid arrangements among electric utilities also compete with gas-fired electric generation in certain markets.

Suppliers of natural gas are able to compete for any gas markets capable of being served by pipelines using nondiscriminatory transportation services provided by the pipeline companies. As the regulated environment has matured, many pipeline companies have faced reduced levels of subscribed capacity as contractual terms expire and customers opt to reduce firm capacity under contract in favor of alternative sources of transmission and related services. This situation, known in the industry as "capacity turnback," is forcing the pipeline companies to evaluate the consequences of major demand reductions in traditional long-term contracts. It could also result in significant shifts in system utilization, and possible realignment of cost

structure for remaining customers since all interstate natural gas pipeline companies continue to be authorized to charge maximum rates approved by the FERC on a cost of service basis.

Williams is aware that several state jurisdictions have been involved in implementing changes similar to the changes that have occurred at the federal level. States, including New York, New Jersey, Pennsylvania, Maryland, Georgia, and Delaware, are currently in the process of finalizing regulations for their respective local distribution companies. Management expects these regulations to encourage greater competition in the natural gas marketplace.

OWNERSHIP OF PROPERTY

Each of Williams' interstate natural gas pipeline companies generally owns its facilities in fee, with certain portions, such as certain offshore facilities, being held jointly with third parties. However, a substantial portion of each pipeline company's facilities is constructed and maintained pursuant to rights-of-way, easements, permits, licenses, or consents on and across properties owned by others. Compressor stations, with appurtenant facilities, are located in whole or in part either on lands owned or on sites held under leases or permits issued or approved by public authorities. The storage facilities are either owned or contracted under long-term leases or easements.

ENVIRONMENTAL MATTERS

Each interstate natural gas pipeline is subject to the National Environmental Policy Act and federal, state, and local laws and regulations relating to environmental quality control. Management believes that, with respect to any capital expenditures and operation and maintenance expenses required to meet applicable environmental standards and regulations, the FERC would grant the requisite rate relief so that, for the most part, the pipeline companies could recover these expenditures in their rates. For this reason, management believes that compliance with applicable environmental requirements by the interstate pipeline companies is not likely to have a material effect upon Williams' earnings or competitive position.

For a discussion of specific environmental issues involving the interstate pipelines, including estimated cleanup costs associated with certain pipeline activities, see "Environmental" under Management's Discussion and Analysis of Financial Condition and Results of Operations and "Environmental matters" in Note 19 of Notes to Consolidated Financial Statements.

WILLIAMS ENERGY SERVICES

Williams Energy is comprised of four major business units: Exploration & Production, Midstream Gas & Liquids, Petroleum Services, and Energy Marketing & Trading. Through its business units, Williams Energy engages in energy production and exploration activities; natural gas gathering, processing, and treating; natural gas liquids transportation, fractionation, and storage; petroleum products transportation and terminal services; ethanol production; refining; ethylene production; light hydrocarbon/olefin transportation; convenience store retailing; and energy commodity marketing and trading.

Williams Energy, through its subsidiaries, owns 1.05 Tcfe of proved natural gas reserves located primarily in New Mexico, Wyoming and Colorado, and owns or operates approximately 11,200 miles of gathering pipelines (including certain gathering lines owned by Transcontinental Gas Pipe Line Corporation but operated by Midstream Gas & Liquids), approximately 13,360 miles of natural gas liquids pipelines, ten natural gas treating plants, 12 natural gas processing plants (one of which is partially owned), 75 petroleum products terminals, two ethanol production facilities (one of which is partially owned), two refineries, 269 convenience stores/travel centers, and approximately 9,170 miles of petroleum products pipeline. Physical and notional volumes marketed and traded by subsidiaries of Williams Energy approximated 18,889 TBtu equivalents in 1999. Williams Energy, through its subsidiaries, employs approximately 7,760 employees.

Segment revenues and segment profit for Williams Energy are reported in Note 22 of Notes to Consolidated Financial Statements herein.

A business description of each of Williams Energy's business units follows.

EXPLORATION & PRODUCTION

Williams Energy, through its wholly owned subsidiary Williams Production Company in its Exploration & Production unit (E&P), owns and operates producing natural gas leasehold properties in the United States. In addition, E&P is exploring for oil and natural gas.

Oil and gas properties. E&P's properties are located primarily in the Rocky Mountains and Gulf Coast areas. Rocky Mountain properties are located in New Mexico, Wyoming, Colorado, and Utah. Gulf Coast properties are located in Louisiana, and east and south Texas.

Gas Reserves. At December 31, 1999, 1998, and 1997, E&P had proved developed natural gas reserves of 548 Bcf, 476 Bcf, and 362 Bcf, respectively, and proved undeveloped reserves of 504 Bcf, 232 Bcf, and 238 Bcf, respectively. Of E&P's total proved reserves, 78 percent are located in the San Juan Basin of Colorado and New Mexico, and 17 percent are located in Wyoming. No major discovery or other favorable or adverse event has caused a significant change in estimated gas reserves since year end.

Customers and Operations. At December 31, 1999, the gross and net developed leasehold acres owned by E&P totaled 277,544 and 118,892, respectively, and the gross and net undeveloped acres owned were 322,713 and 106,613 respectively. At December 31, 1999, E&P owned interests in 3,676 gross producing wells (731 net) on its leasehold lands.

Operating Statistics. The following tables summarize drilling activity for the periods indicated:

1999 WELLS	GROSS	NET
Development		
Drilled	248	47
Completed	248	47
Exploration		
Drilled	4	2
Completed	1	.5

COMPLETED DURING	GROSS WELLS	NET WELLS
1999	249	48
1998	177	49
1997	207	35

The majority of E&P's gas production is currently being sold in the spot market at market prices. Total net production sold during 1999, 1998, and 1997 was 57.9 Bcf, 43.2 Bcf, and 37.1 Bcf, respectively. The average production costs, including production taxes, per Mcf of gas produced were $.46, $.37, and $.42, in 1999, 1998, and 1997, respectively. The average wellhead sales price per Mcf was $1.48, $1.31, and $1.62, respectively, for the same periods.

In 1993 E&P conveyed a net profits interest in certain of its properties to the Williams Coal Seam Gas Royalty Trust. Williams subsequently sold Trust Units to the public in an underwritten public offering. Williams owns 3,568,791 Trust Units representing 36.8 percent of outstanding Units. Substantially all of the production attributable to the properties conveyed to the Trust was from the Fruitland coal formation and constituted coal seam gas. Production information reported herein includes E&P's interest in these Units.

MIDSTREAM GAS & LIQUIDS

Williams Energy, through Williams Field Services Group, Inc. and its subsidiaries, Williams Natural Gas Liquids, Inc. and its subsidiaries, and Williams Midstream Natural Gas Liquids, Inc. (collectively Midstream Gas & Liquids), owns and operates natural gas gathering, processing and treating, and natural gas liquids transportation, fractionation, and storage facilities in northwestern New Mexico, southwestern Colorado,

southwestern Wyoming, eastern Utah, northwestern Oklahoma, Kansas, northern Missouri, eastern Nebraska, Iowa, southern Minnesota, Tennessee, and also in areas offshore and onshore in Texas, Alabama, Mississippi, and Louisiana. Midstream Gas & Liquids also operates gathering facilities, owned by Transcontinental Gas Pipe Line Corporation, an affiliated interstate natural gas pipeline company, that are currently regulated by the FERC.

Expansion Projects. During 1999 Midstream Gas & Liquids continued to expand its operations in the Gulf Coast region through the Mobile Bay projects. The Mobile Bay processing plant was completed in the second quarter of 1999. Contracts are currently in place to supply approximately 70 percent of the processing plant's 600 MMcf per day of capacity. Liquids from this plant are handled by three separate joint ventures including: Tri-States Pipeline, a 16.7 percent owned system with a capacity of 95,000 bbl per day; Wilprise Pipeline, a 37.3 percent owned system with capacity of 60,000 bbl per day; and a 31.6 percent owned fractionation facility with a capacity of 60,000 bbl per day.

In the fourth quarter of 1999, Midstream Gas & Liquids completed construction on an expansion of its Rocky Mountain natural gas liquids pipeline which increased capacity from 75,000 bbl per day to 125,000 bbl per day through construction of a 412-mile pipeline parallel to the existing Mid-America Pipeline System.

Customers and Operations. Facilities owned and/or operated by Midstream Gas & Liquids consist of approximately 11,200 miles of gathering pipelines (including certain gathering lines owned by Transco but operated by Midstream Gas & Liquids), ten natural gas treating plants, 12 natural gas processing plants (one of which is partially owned), and approximately 13,360 miles of natural gas liquids pipeline, of which approximately 4,418 miles are partially owned. The aggregate daily inlet capacity is approximately 8 Bcf for the gathering systems and 7.3 Bcf for the gas processing, treating, and dehydration facilities. Midstream Gas & Liquids' pipeline operations provide customers with one of the nation's largest natural gas liquids transportation systems, while gathering and processing customers have direct access to interstate pipelines, including affiliated pipelines, which provide access to multiple markets.

During 1999 Midstream Gas & Liquids gathered gas for 308 customers, processed gas for 126 customers, and provided transportation to 82 customers. The largest customer accounted for approximately 15 percent of total gathered volumes, and the two largest processing customers accounted for 17 percent and 11 percent, respectively, of processed volumes. The two largest transportation customers accounted for 18 percent and 10 percent, respectively, of transportation volumes. No other customer accounted for more than ten percent of gathered, processed, or transported volumes. Midstream Gas & Liquids' gathering and processing agreements with large customers are generally long-term agreements with various expiration dates. These long-term agreements account for the majority of the gas gathered and processed by Midstream Gas & Liquids. The natural gas liquids transportation contracts are tariff-based and generally short-term in nature with some long-term contracts for system-connected processing plants.

Acquisitions. On March 31, 1999, Williams acquired Union Texas Petrochemical, Inc. from Atlantic Richfield Company for $163 million. In addition to a 5/12 interest in an olefin plant located near Geismar, La., operated by the Petroleum Services segment, the acquisition included several NGL transportation and storage assets in Louisiana, including a 215-mile ethane transportation system and partial ownership in an 85-mile olefin pipeline and storage network, which connects, either directly or indirectly, most major natural gas liquids producers and olefin consumers in Louisiana.

On April 1, 1999, Midstream purchased a 10 million barrel underground storage facility from Koch Industries. The facility is located west of McPherson, Kansas, and consists of 85 underground NGL storage wells. In addition, the purchase included loading/unloading facilities to accommodate 20 tank railcars and three tanker trucks.

On May 1, 1999, Midstream acquired a 20 percent ownership interest in the West Texas LPG Pipeline Limited Partnership, which owns and operates the West Texas LPG Pipeline. Under terms of the agreement, Williams contributed a portion of its NGL gathering system located in southeastern New Mexico and western Texas, near Hobbs, Texas, to the partnership.

Operating Statistics. The following table summarizes gathering, processing, natural gas liquid sales, and transportation volumes for the periods indicated. The information includes operations attributed to facilities owned by Transco but operated by Midstream Gas & Liquids.

	1999	1998	1997
Gas volumes:			
Gathering (TBtu)	2,085	2,117	2,153
Processing (TBtu)	539	536	520
Natural gas liquids sales (millions of gallons)	838	576	551
Natural gas liquids transportation (MMbbl)	282	285	289

PETROLEUM SERVICES

Williams Energy, through wholly owned subsidiaries in its Petroleum Services unit, owns and operates a petroleum products pipeline system, two ethanol production plants (one of which is majority owned), and petroleum products terminals and provides services and markets products related thereto. Included in this business unit are two refineries, 269 convenience stores/travel centers, trucking and rail operations for propane and refined products, and mobile information management systems.

Transportation. A subsidiary in the Petroleum Services unit, Williams Pipe Line Company, owns and operates a petroleum products pipeline system that covers an 11-state area extending from Oklahoma to North Dakota, Minnesota and Illinois. The system is operated as a common carrier offering transportation and terminalling services on a nondiscriminatory basis under published tariffs. The system transports refined products and liquified petroleum gases.

At December 31, 1999, the system traverses approximately 7,100 miles of right-of-way and includes approximately 9,170 miles of pipeline in various sizes up to 16 inches in diameter. The system includes 77 pumping stations, 22.4 million barrels of storage capacity, and 40 delivery terminals. The terminals are equipped to deliver refined products into tank trucks and tank rail cars. The maximum number of barrels that the system can transport per day depends upon the operating balance achieved at a given time between various segments of the system. Because the balance is dependent upon the mix of products to be shipped and the demand levels at the various delivery points, the exact capacity of the system cannot be stated. In 1999 total system shipments averaged 610 thousand barrels per day.

The operating statistics set forth below relate to the system's operations for the periods indicated:

	1999	1998	1997
Shipments (thousands of barrels):			
Refined products:			
Gasolines	132,444	131,600	132,428
Distillates	70,466	72,471	71,694
Aviation fuels	12,060	10,038	10,557
LP-Gases	7,521	8,644	13,322
Lube extracted fuel oil	--	1,246	7,471
Crude oil	--	--	31
Total Shipments	222,491	223,999	235,503
Daily average (thousands of barrels)	610	614	645
Barrel miles (millions)	67,768	61,043	61,086

Williams Pipe Line and a subsidiary of Williams Pipe Line, Longhorn Enterprises of Texas, Inc. (LETI), own a total 31.5 percent interest in Longhorn Partners Pipeline, LP, a joint venture formed to construct and operate a refined products pipeline from Houston to El Paso, Texas. Pipeline construction is complete, and operations are expected to commence in 2000, pending review and approval of an environmental assessment. Williams Pipe Line has designed and constructed and will operate the pipeline, and Williams Pipe Line and LETI have contributed a total of $95.8 million to the joint venture.

Olefins. In the first quarter of 1999, Williams Energy purchased Union Texas Petrochemicals Corporation, a wholly owned subsidiary of ARCO, for $163 million. UTP's assets include a 215-mile light hydrocarbon transportation and partial ownership in an 85-mile olefin pipeline and storage network, which connects, either directly or indirectly, most major natural gas liquids producers and olefin consumers in Louisiana. UTP also is the leading merchant marketer of ethylene in Louisiana and owns and operates a 5/12 interest in a 1.2 billion pounds per year ethylene plant near Geismar, Louisiana. In connection with the acquisition, the Energy Marketing & Trading unit entered into a financial agreement, backed by an A credit-rated third party to manage the risks related to the earnings volatility typically associated with ethylene production.

Terminal Services and Development. Williams Energy, through its wholly owned subsidiary Williams Energy Ventures (WEV), provides independent terminal services to the refining and marketing industries via distribution of petroleum products through wholly owned and joint interest terminals. WEV owns and/or operates 32 strategically located independent terminals covering a 14-state area in the South, Southeast, Southwest, and Midwest.

The terminals are supplied with refined products and ethanol by barge, tanker, truck, rail, and various common carrier pipelines. WEV provides scheduling and inventory management, access to an expanded transportation and information services network, additive injection services, and custom terminalling services such as octane and oxygenate blending. On a selective basis, WEV provides temporary leased storage.

In early 1999 WEV purchased 12 terminals in the Southeast from Amoco and three Gulf Coast area terminals from Amerada Hess.

Terminal barrels delivered for the periods indicated are noted below.

	1999	1998	1997
Terminal Barrels Delivered (mbbls)	91,005	28,787	17,336

Bio-Energy. WEV, doing business as Williams Bio-Energy, is engaged in the production and marketing of ethanol. Williams Bio-Energy owns and operates two ethanol plants for which corn is the principal feedstock. The Pekin, Illinois, plant has an annual production capacity of 100 million gallons of fuel-grade and industrial ethanol and also produces various coproducts and Bio-Products. The Aurora, Nebraska, plant (in which WEV owns a 74.9 percent interest) has an annual production capacity of 30 million gallons. Williams Bio-Products also markets ethanol produced by third parties. Bio-Products, mainly flavor enhancers, produced at the Pekin plant are marketed primarily to food processing companies.

The sales volumes set forth below include ethanol produced by third parties as well as by WEV for the periods indicated:

	1999	1998	1997
Ethanol sold (thousands of gallons)	200,077	172,056	145,612

Distribution Services. Petroleum Services, through its distribution services group, provides petroleum trucking, and rail car operations for Williams Energy and third parties. The petroleum trucking operation, operated out of Memphis, Tennessee, under the name "GENI Transport," works with local jobbers to supply their retail outlets and with several of Williams Energy's Energy Marketing & Trading unit's wholesale customers to develop transportation arrangements. GENI Transport is also the primary transportation provider to Petroleum Services' retail petroleum group.

Refining. Petroleum Services, through its subsidiaries, owns and operates two refineries: the North Pole, Alaska, refinery and the Memphis, Tennessee, refinery. The financial results of the North Pole refinery and the Memphis refinery may be significantly impacted by changes in market prices for crude oil and refined products. Petroleum Services cannot predict the future of crude oil and product prices or their impact on its financial results.

North Pole Refinery. The North Pole Refinery includes the refinery located at North Pole, Alaska, and a terminal facility at Anchorage, Alaska. The refinery, the largest in the state, is located approximately two

miles from its supply point for crude oil, the Trans-Alaska Pipeline System (TAPS). The refinery's processing capability is approximately 215,000 barrels per day. At maximum crude throughput, the refinery can produce 67,000 barrels per day of refined products. These products are jet fuel, gasoline, diesel fuel, heating oil, fuel oil, naphtha, and asphalt. These products are marketed in Alaska, Western Canada, and the Pacific Rim principally to wholesale, commercial, industrial, and government customers and to Petroleum Services' retail petroleum group. Petroleum Services completed construction of a third crude unit at the refinery in October 1998 that can produce an additional 17,000 barrels per day of refined products, including 14,000 barrels per day of jet fuel. The new crude unit was completed at a cost of $75 million.

Average daily throughput and barrels processed and transferred by the North Pole Refinery per day are noted below:

	1999	1998	1997
Throughput (bbl)	185,921	142,471	132,238
Barrels Processed and Sold (bbl)	56,395	49,111	47,626

The North Pole Refinery's crude oil is purchased from the state of Alaska or is purchased or received on exchanges from crude oil producers. The refinery has two long-term agreements with the state of Alaska for the purchase of royalty oil, both of which are scheduled to expire on December 31, 2003. The agreements provide for the purchase of up to 63,000 barrels per day (approximately 29 percent of the refinery's supply) of the state's royalty share of crude oil produced from Prudhoe Bay, Alaska. These volumes, along with crude oil either purchased from crude oil producers or received under exchange agreements or other short-term supply agreements with the state of Alaska, are utilized as throughput in the production of products at the refinery. Approximately 34 percent of the throughput is refined and sold as finished product and the remainder of the throughput is returned to the TAPS and either delivered to repay exchange obligations or sold.

Memphis Refinery. The Memphis Refinery, which includes three petroleum products terminals, two of which were acquired in 1999 from Truman Arnold Companies, is the only refinery in the state of Tennessee and has a throughput capacity of approximately 160,000 barrels per day. During June 1999, the refinery's alkylation unit was expanded approximately 4,000 barrels per day to 12,000 barrels per day. In November 1999, the refinery commissioned an expansion of its East Crude Unit increasing crude production capacity by approximately 20,000 barrels per day to 160,000 barrels per day. During the same time period, the refinery's fluid catalytic cracking unit was expanded by approximately 5,000 barrels per day to 70,000 barrels per day. Williams Energy is also constructing a 36,000 barrels per day continuous catalyst regeneration reformer, slated for completion in May 2000. The reformer will enable the refinery to produce 100 percent of customer demand for premium gasoline in the mid-South region of the United States.

The Memphis Refinery produces gasoline, low sulfur diesel fuel, jet fuel, K-1 kerosene, refinery-grade propylene, No. 6 fuel oil, propane, and elemental sulfur. These products are exchanged or marketed primarily in the Mid-South region of the United States by Williams Energy's Energy Marketing & Trading unit to wholesale customers, such as industrial and commercial consumers, jobbers, independent dealers, other refiner/marketers, and to Petroleum Services' retail petroleum group.

The Memphis Refinery has access to crude oil from the Gulf Coast via common carrier pipeline and by river barges. In addition to domestic crude oil, the Memphis Refinery has the capability of receiving and processing certain foreign crudes.

Average daily barrels processed and transferred by the Memphis Refinery are noted below:

	1999	1998	1997
Barrels Processed and Transferred (bbl)	133,494	120,985	113,040

Retail Petroleum. Petroleum Services, primarily under the brand names "Williams TravelCenters" and "MAPCO Express," is engaged in the retail marketing of gasoline, diesel fuel, other petroleum products, convenience merchandise, and restaurant and fast food items. The retail petroleum group operates 42 interstate TravelCenter locations and 227 convenience stores. The TravelCenter sites consist of 27 modern facilities

providing gasoline and diesel fuel, merchandise, and restaurant offerings for both traveling consumers and professional drivers, and 15 locations providing fuel and merchandise. The convenience store sites are primarily concentrated in the vicinities of Nashville and Memphis, Tennessee, and the state of Alaska. All of the motor fuel sold by Williams TravelCenters and MAPCO Express stores is supplied either by exchanges, directly from either the Memphis or North Pole Refineries or through Williams Energy's Energy Marketing & Trading unit.

Convenience merchandise, restaurants, and fast food accounted for approximately 57 percent of the retail petroleum group's gross margins in 1999 and in 1998. Gasoline and diesel sales volumes for the periods indicated are noted below:

	1999	1998	1997
Gasoline (mgals)......................................	339,470	329,821	292,644
Diesel (mgals)..	264,248	188,401	137,219

Williams Energy intends to construct up to 25 new travel centers in 2000, the majority of which are expected to open in the third and fourth quarters of 2000.

ENERGY MARKETING & TRADING

Williams Energy, through subsidiaries, primarily Williams Energy Marketing & Trading Company and its subsidiaries (EM&T), is a national energy services provider that buys, sells, and transports a full suite of energy commodities, including natural gas, electricity, refined products, natural gas liquids, crude oil, propane, liquefied natural gas, and liquified petroleum gas, primarily on a wholesale level, serving over 4,000 customers. The number of customers has declined from approximately 300,000 in 1998 due to the sale of EM&T's retail propane marketing business in December 1999. In addition, EM&T provides price-risk management services through a variety of financial instruments including exchange-traded futures, as well as over-the-counter forwards, options, and swap agreements related to various energy commodities. See Note 18 of Notes to Consolidated Financial Statements for information on financial instruments.

EM&T markets natural gas throughout North America and increased its total volumes (physical and notional) to an average of 34.1 Bcf per day in 1999. EM&T's core business has traditionally been natural gas marketing in the Gulf Coast and Eastern regions of the United States, using the pipeline systems owned by Williams, but also includes marketing on approximately 70 non-Williams' pipelines. EM&T's natural gas customers include producers, industrials, local distribution companies, utilities, and other gas marketers.

During 1999, EM&T marketed 285,413 GWh (physical and notional) of electricity. As part of its electricity supply portfolio, EM&T has entered into a number of long-term agreements (15-20 years) to market capacity of electricity generating facilities, either existing or to be constructed at various locations throughout the country totaling approximately 8,800 MW (including Alabama -- approximately 850 MW, California -- approximately 4,000 MW, Louisiana -- approximately 750 MW, New Jersey -- approximately 750 MW, and Pennsylvania -- approximately 650 MW). Under these arrangements, EM&T supplies fuel for conversion to electricity and markets capacity, energy, and ancillary services, related to the generating facilities owned and operated by various counterparties. Approximately 4,000 MW of generation capacity, located in Southern California, is already operational. Commercial operational dates for the remaining capacity range from June 2000 through May 2002. EM&T also has marketing rights for energy and capacity for two natural gas-fired electric generating plants of approximately 60 MW each that are owned by affiliated companies and located near Bloomfield, New Mexico, and in Hazleton, Pennsylvania.

In 1999, EM&T provided supply, distribution, and related risk management services to petroleum producers, refiners, and end-users in the United States and various international regions. During 1999 EM&T's total crude oil and petroleum products (physical and notional) marketed averaged 2,396.8 Mbbl per day. During 1999 EM&T also marketed natural gas liquids with total volumes (physical) averaging 244.9 Mbbl per day.

In early 1999, EM&T announced its intent to focus the natural gas and electric business on large end-use customers and away from sales to commercial and retail customers. In keeping with that direction, the subsidiaries, principally Volunteer Energy L.L.C., which were engaged in retail natural gas and electric sales, were sold during 1999. In addition, EM&T's retail propane business conducted by Thermogas L.L.C. was sold to Ferrellgas Partners L.P. on December 17, 1999, pursuant to an unsolicited offer (see Note 7 of Notes to Consolidated Financial Statements).

Operating Statistics. The following table summarizes marketing and trading volumes for the periods indicated (natural gas volumes include sales by the retail gas and electric business, which has now been divested; propane gallons in 1999 represent sales by Thermogas through December 17, 1999, the date Thermogas was sold; includes propane gallons during 1997 and a portion of 1998 during which Williams did not own MAPCO Inc.):

	1999	1998	1997
Average marketing and trading volumes (physical and notional):			
Natural gas (Bcf per day)	34.1	27.7	22.3
Refined products, natural gas liquids, crude oil (mbbl per day)	2,641.7	2,577.5	1,521.3
Electricity (GWh)	285,413	148,400	72,390
Propane gallons (millions)	267.6	262.6	297.2

REGULATORY MATTERS

Midstream Gas & Liquids. In May 1994, after reviewing its legal authority in a Public Comment Proceeding, the FERC determined that while it retains some regulatory jurisdiction over gathering and processing performed by interstate pipelines, pipeline-affiliated gathering and processing companies are outside its authority under the Natural Gas Act. An appellate court has affirmed the FERC's determination, and the United States Supreme Court has denied requests for certiorari. As a result of these FERC decisions, some of the individual states in which Midstream Gas & Liquids conducts its operations have considered whether to impose regulatory requirements on gathering companies. Kansas, Oklahoma, and Texas currently regulate gathering activities using complaint mechanisms under which the state commission may resolve disputes involving an individual gathering arrangement. Other states may also consider whether to impose regulatory requirements on gathering companies.

In February 1996, Midstream Gas & Liquids and Transco filed applications with the FERC to spindown all of Transco's gathering facilities to Midstream Gas & Liquids. The FERC subsequently denied the request in September 1996. Midstream Gas & Liquids and Transco sought rehearing in October 1996. In August 1997, Midstream Gas & Liquids and Transco filed a second request for expedited treatment of the rehearing request. The FERC has yet to rule on this request for rehearing. In February 1998 Midstream Gas & Liquids and Transco filed separate applications to spindown an onshore gathering system located in Texas, the Tilden/ McMullen gathering system, which was also one of the subjects of the pending rehearing request. In May of 1999, FERC approved the spindown application only for the facilities upstream of the Tilden treating plant. The transfer of ownership of these facilities is planned for April 2000. As a result of a court appeal reversing and remanding the Commission's decision that the offshore system of Sea Robin pipeline were transmission facilities regulated by FERC under the Natural Gas Act, in June 1998. FERC issued a Notice of Inquiry into its policy related to jurisdiction over pipeline facilities located on the Outer Continental Shelf. Instead of issuing a policy or rule, in June 1999, FERC issued an order in the Sea Robin remand proceeding finding that the upstream portions of the Sea Robin system are nonjurisdictional gathering but the downstream portion is regulated transmission. Rehearing requests are pending. In June 1999, FERC issued a Notice of Proposed Rulemaking under the Outer Continental Shelf Lands Act, proposing certain reporting requirements (including prices, terms and conditions), for facilities located on the Outer Continental Shelf. FERC has not issued a final rule in that proceeding.

Midstream Gas & Liquids' natural gas liquids group is subject to various federal, state, and local environmental and safety laws and regulations. Midstream Gas & Liquids' pipeline operations are subject to

the provisions of the Hazardous Liquid Pipeline Safety Act. In addition, the tariff rates, shipping regulations, and other practices of the Mid-America, Rio Grande, Seminole, Wilprise, and Tri-States pipelines are regulated by the FERC pursuant to the provisions of the Interstate Commerce Act applicable to interstate common carrier petroleum and petroleum products pipelines. The tariff rates and practices of the ammonia system are regulated by the Surface Transportation Board under the provisions of the Interstate Commerce Commission Termination Act of 1995 applicable to pipeline carriers. Both of these statutes require the filing of reasonable and nondiscriminatory tariff rates and subject Midstream Gas & Liquids to certain other regulations concerning its terms and conditions of service. The Mid-America, Rio Grande, Seminole, Wilprise and Tri-States pipelines also file tariff rates covering intrastate movements with various state commissions. The United States Department of Transportation has prescribed safety regulations for common carrier pipelines. The pipeline systems are subject to various state laws and regulations concerning safety standards, exercise of eminent domain, and similar matters.

Petroleum Services. Williams Pipe Line, as an interstate common carrier pipeline, is subject to the provisions and regulations of the Interstate Commerce Act. Under this Act, Williams Pipe Line is required, among other things, to establish just, reasonable, and nondiscriminatory rates, to file its tariffs with the FERC, to keep its records and accounts pursuant to the Uniform System of Accounts for Oil Pipeline Companies, to make annual reports to the FERC, and to submit to examination of its records by the audit staff of the FERC. Authority to regulate rates, shipping rules, and other practices and to prescribe depreciation rates for common carrier pipelines is exercised by the FERC. The Department of Transportation, as authorized by the 1995 Pipeline Safety Reauthorization Act, is the oversight authority for interstate liquids pipelines. Williams Pipe Line is also subject to the provisions of various state laws applicable to intrastate pipelines.

On December 31, 1989, a rate cap, which resulted from a settlement with several shippers and had effectively frozen Williams Pipe Line's rates for the previous five years, expired. Williams Pipe Line filed a revised tariff on January 16, 1990, with the FERC and the state commissions. The tariff set an average increase in rates of 11 percent and established volume incentives and proportional rate discounts. Certain shippers on the Williams Pipe Line system and a competing pipeline carrier filed protests with the FERC alleging that the revised rates were not just and reasonable and were unlawfully discriminatory. Williams Pipe Line elected to bifurcate this proceeding in accordance with the then-current FERC policy. Phase I of the FERC's bifurcated proceeding provided Williams Pipe Line the opportunity to justify its rates and rate structure by demonstrating that its markets were workably competitive. Rates to markets that were not deemed workably competitive in Phase I required cost justification in Phase II. Subsequent rate increases filed by Williams Pipe Line were stayed pending ultimate resolution of Phase II.

In the Phase I proceeding, the FERC found all but 12 of Williams Pipe Line's markets to be workably competitive and, thus, eligible for market-based rates. On July 15, 1998, the FERC issued its decision in Phase II finding that Williams Pipe Line failed to demonstrate that the rates at issue for the 12 less competitive markets were just and reasonable and that Williams Pipe Line must roll back those rates to pre-1990 levels and pay refunds with interest to its shippers. Williams Pipe Line sought rehearing of the July 15, 1998, order and was granted leave to stay the order's refund requirement until the FERC acted on rehearing. Williams Pipe Line accrued an appropriate liability in 1998 for the July 15, 1998, order. Subsequent to the July 15, 1998, order, Williams Pipe Line entered into settlement discussions with the parties to the case and with the Commission Staff. These discussions resulted in a settlement that the Commission approved on October 13, 1999. The settlement resolved all issues related to the 1990 rate filing, including all appeals and requests for rehearing for both Phase I and Phase II. Moreover, the settlement also addressed all the subsequent rate filings that had been held in abeyance. Pursuant to the settlement, the rate refunds that Williams Pipe Line was required to make are less than the amounts it had accrued for such refunds, and its rates were given status equivalent to "just and reasonable" rates grandfathered under the Commission's regulations.

Environmental regulations and changing crude oil supply patterns continue to affect the refining industry. The industry's response to environmental regulations and changing supply patterns will directly affect volumes and products shipped on the Williams Pipe Line system. Environmental Protection Agency regulations, driven by the Clean Air Act, require refiners to change the composition of fuel manufactured. A pipeline's ability to

respond to the effects of regulation and changing supply patterns will determine its ability to maintain and capture new market shares. Williams Pipe Line has successfully responded to changes in diesel fuel composition and product supply and has adapted to new gasoline additive requirements. Reformulated gasoline regulations have not yet significantly affected Williams Pipe Line. Williams Pipe Line will continue to attempt to position itself to respond to changing regulations and supply patterns but cannot predict how future changes in the marketplace will affect its market areas.

Energy Marketing & Trading. EM&T's business is subject to a variety of laws and regulations at the local, state, and federal levels. At the federal level, important regulatory agencies include the Federal Energy Regulatory Commission (regarding energy commodity transportation and wholesale trading) and the Commodity Futures Trading Commission (regarding various over-the-counter derivative transactions and exemptions and exclusions from the Commodity Exchange Act). Management believes that EM&T's activities are conducted in substantial compliance with the marketing affiliate rules of FERC Order 497. Order 497 imposes certain nondiscrimination, disclosure, and separation requirements upon interstate natural gas pipelines with respect to their natural gas trading affiliates. EM&T has taken steps to ensure it does not share employees or officers with affiliated interstate natural gas pipelines and does not receive information from affiliated interstate natural gas pipelines that is not also available to unaffiliated natural gas trading companies.

COMPETITION

Exploration & Production. Williams Energy's E&P unit competes with a wide variety of independent producers as well as integrated oil and gas companies for markets for its production. E&P has three general phases of operations: acquiring oil and gas properties, developing non-producing properties, and operating producing properties. In the process of acquiring minerals, the primary methods of competition are on acquisition price and terms such as duration of the mineral lease, the amount of the royalty payment, and special conditions related to rights to use the surface of the land under which the mineral interest lies. In the process of developing non-producing properties, E&P does not face significant competition. In the operating phase, the primary method of competition involves operating efficiencies related to the cost to produce the hydrocarbons from the reservoir.

Midstream Gas & Liquids. Williams Energy competes for gathering and processing business with interstate and intrastate pipelines, producers, and independent gatherers and processors. Numerous factors impact any given customer's choice of a gathering or processing services provider, including rate, term, timeliness of well connections, pressure obligations, and the willingness of the provider to process for either a fee or for liquids taken in-kind. Competition for the natural gas liquids pipelines include other pipelines, tank cars, trucks, barges, local sources of supply (refineries, gasoline plants, and ammonia plants), and other sources of energy such as natural gas, coal, oil, and electricity. Factors that influence customer transportation decisions include rate, location, and timeliness of delivery.

Petroleum Services. Williams Pipe Line operates without the protection of a federal certificate of public convenience and necessity that might preclude other entrants from providing like service in its area of operations. Further, Williams Pipe Line must plan, operate, and compete without the operating stability inherent in a broad base of contractually obligated or owner-controlled usage. Because Williams Pipe Line is a common carrier, its shippers need only meet the requirements set forth in its published tariffs in order to avail themselves of the transportation services offered by Williams Pipe Line.

Competition exists from other pipelines, refineries, barge traffic, railroads, and tank trucks. Competition is affected by trades of products or crude oil between refineries that have access to the system and by trades among brokers, traders, and others who control products. These trades can result in the diversion from the Williams Pipe Line system of volume that might otherwise be transported on the system. Shorter, lower revenue hauls may also result from these trades. Williams Pipe Line also is exposed to interfuel competition whereby an energy form shipped by a liquids pipeline, such as heating fuel, is replaced by a form not transported by a liquids pipeline, such as electricity or natural gas. While Williams Pipe Line faces competition from a variety of sources throughout its marketing areas, the principal competition is other

pipelines. A number of pipeline systems, competing on a broad range of price and service levels, provide transportation service to various areas served by the system. The possible construction of additional competing products or crude oil pipelines, conversions of crude oil or natural gas pipelines to products transportation, changes in refining capacity, refinery closings, changes in the availability of crude oil to refineries located in its marketing area, or conservation and conversion efforts by fuel consumers may adversely affect the volumes available for transportation by Williams Pipe Line.

Williams Bio-Energy's fuel ethanol operations compete in local, regional, and national fuel additive markets with other ethanol products and other fuel additive producers, such as refineries and MTBE producers. Williams Bio-Energy's other products compete in global markets against a variety of competitors and substitute products.

The principal competitive forces affecting Williams Energy's refining businesses are feedstock costs, refinery efficiency, refinery product mix, and product distribution. Some of Memphis Refinery's competitors can process sour crude, and accordingly, are more flexible in the crudes that they can process. Williams Energy has limited crude oil reserves and does not engage in crude oil exploration, and it must therefore obtain its crude oil requirements from unaffiliated sources. Williams Energy believes that it will be able to obtain adequate crude oil and other feedstocks at generally competitive prices for the foreseeable future.

The principal competitive factors affecting Williams Energy's retail petroleum business are location, product price and quality, appearance and cleanliness of stores, and brand-name identification. Competition in the convenience store industry is intense. Within the travel center industry, Williams TravelCenters strives to be a market leader in customer service to the local consumer, traveling consumer, and professional driver. Averaging 12,000 square feet, the facilities seamlessly blend these customer groups, resulting in greater revenue and income diversification than traditional convenience stores.

Energy Marketing & Trading. Williams Energy's operations directly compete with large independent energy marketers, marketing affiliates of regulated pipelines and utilities, and natural gas producers. The financial trading business competes with other energy-based companies offering similar services as well as certain brokerage houses. This level of competition contributes to a business environment of constant pricing and margin pressure.

OWNERSHIP OF PROPERTY

The majority of Williams Energy's ownership interests in exploration and production properties are held as working interests in oil and gas leaseholds.

Williams Energy's gathering and processing facilities and natural gas liquids pipelines are owned in fee. Midstream Gas & Liquids constructs and maintains gathering and natural gas liquids pipeline systems pursuant to rights-of-way, easements, permits, licenses, and consents on and across properties owned by others. The compressor stations and gas processing and treating facilities are located in whole or in part on lands owned by subsidiaries of Williams Energy or on sites held under leases or permits issued or approved by public authorities.

Williams Energy owns its petroleum pipeline system in fee. However, a substantial portion of the system is operated, constructed, and maintained pursuant to rights-of-way, easements, permits, licenses, or consents on and across properties owned by others. The terminals, pump stations, and all other facilities of the system are located on lands owned in fee or on lands held under long-term leases, permits, or contracts. The North Pole Refinery is located on land leased from the state of Alaska under a long-term lease scheduled to expire in 2025 and renewable at that time by Williams Energy. The Anchorage, Alaska, terminal is located on land leased from the Alaska Railroad Corporation under two long-term leases. The Memphis Refinery is located on land owned by Williams Energy. Williams Energy owns approximately one-half of the properties upon which its Retail Petroleum stores are located and leases the remainder from third parties. Williams Energy management believes its assets are in such a condition and maintained in such a manner that they are adequate and sufficient for the conduct of business.

The primary assets of Williams Energy's energy marketing and trading unit are its term contracts, employees, related systems and technological support.

ENVIRONMENTAL MATTERS

Williams Energy is subject to various federal, state, and local laws and regulations relating to environmental quality control. Management believes that Williams Energy's operations are in substantial compliance with existing environmental legal requirements. Management expects that compliance with existing environmental legal requirements will not have a material adverse effect on the capital expenditures, earnings, and competitive position of Williams Energy. See Note 19 of Notes to Consolidated Financial Statements.

The EPA has named Williams Pipe Line as a potentially responsible party as defined in Section 107(a) of the Comprehensive Environmental Response, Compensation, and Liability Act, for a site in Sioux Falls, South Dakota. The EPA placed this site on the National Priorities List in July 1990. In April 1991 Williams Pipe Line and the EPA executed an administrative consent order under which Williams Pipe Line agreed to conduct a remedial investigation and feasibility study for this site. The EPA issued its "No Action" Record of Decision in 1994, concluding that there were no significant hazards associated with the site subject to two additional years of monitoring for arsenic in certain existing monitoring wells. Williams Pipe Line completed monitoring in the second quarter of 1997 and submitted a report of results to the EPA, which published a Notice of Intent to delete the Sioux Falls site in the January 4, 1999, Federal Register. The public comment period has ended with no significant comments needing to be addressed. Williams Pipe Line was issued a closure letter from the EPA on April 2, 1999. All monitoring is completed, and no further work is anticipated in association with the site.

Groundwater monitoring and remediation are ongoing at both refineries and air and water pollution control equipment is operating at both refineries to comply with applicable regulations. The Clean Air Act Amendments of 1990 continue to impact Williams Energy's refining businesses through a number of programs and provisions. The provisions include Maximum Achievable Control Technology rules which are being developed for the refining industry, controls on individual chemical substances, new operating permit rules and new fuel specifications to reduce vehicle emissions. The provisions impact other companies in the industry in similar ways and are not expected to adversely impact Williams Energy's competitive position.

WILLIAMS COMMUNICATIONS GROUP, INC.

On October 6, 1999, Williams Communications Group, Inc., closed an initial public offering (IPO) by selling shares of its Class A Common Stock to the public. In separate private placements, SBC Communications Inc., Intel Corporation, and Telefonos de Mexico, S.A. de C.V. each purchased a portion of the Class A Common Stock. As of March 15, 2000, there were 68,195,470 shares of the Class A Common Stock outstanding, and Williams owned 395,434,965 shares of the Class B Common Stock of Communications, representing an approximate 85.3 percent ownership interest. Holders of the Class A Common Stock are entitled to one vote per share, and Williams, as holder of the Class B Common Stock of Communications, is entitled to ten votes per share.

Williams Communications is comprised of four business segments: Network, which owns and operates Communications' fiber optic network and which makes investments in communications businesses that create demand for capacity on the Communications network, increase Williams Communications service capabilities, strengthen its customer relationships, and develop its expertise in advanced transmission electronics. Broadband Media, which provides worldwide transmission of live and non-live media content through integrated fiber-optic, satellite, and teleport services; Solutions, which provides equipment sales and service, professional services, and sale of carrier services; and Strategic Investments, which makes investments in domestic and foreign communications businesses that extend its reach. In 1999, Communications sold Global Access, its audio- and video-conferencing business. See Note 5 of Notes to Consolidated Financial Statements. In 1999, Communications also decided to abandon its Telemetry business. Communications has approximately 9,200 employees.

NETWORK

Products and Services. Network's products and services fall into seven categories: packet-based data services, private line services, voice services, local services, dark fiber rights, optical wave services, and network design and operational support. In addition to its domestic network, Network owns a 43 percent economic interest in and holds a majority of board seats of PowerTel, an Australian company that plans to build, own, and operate communications networks serving the three cities of Brisbane, Melbourne and Sydney, Australia, and plans to provide local services in the central business districts of these cities.

Revenues. In 1999, 1998, and 1997, Network contributed approximately 21.5, 11.7, and 2.9 percent, respectively, to Communications' total revenues.

Network. At December 31, 1999, Communications had approximately 26,000 domestic route miles of fiber optic cable primarily installed in the ground, with approximately 20,000 of those miles in operation. As of December 31, 1999, Williams Communications had 38 points of presence.

The Communications network is being constructed along pipeline rights of way of affiliates of Williams and the rights-of-way of other pipeline companies. As of December 31, 1999, Communications had agreements in place for approximately 90 percent of the rights of way needed to complete the network.

In addition to providing services on its own network, Communications leases capacity and obtains options rights in dark fiber and wavelengths from both long distance and local telecommunications carriers, including competitors, in order to meet the needs of customers.

Customers. Network's customers currently include regional Bell operating companies, Internet service providers, long distance carriers, international carriers, utilities, and other service providers who desire high-speed connectivity on a wholesale basis.

Network's largest customers for 1999 were Intermedia, which accounted for 23 percent of Network's revenues, and WinStar, which accounted for 20 percent of Network's revenues. Network's next four largest customers accounted for a total of 26 percent of Network's total revenues.

Network Investments. Network holds investments in domestic and foreign businesses that create demand for capacity on the Communications network, increase Communications' service capabilities, strengthen Communications' customer relationships, and develop Communications' expertise in advanced transmission electronics. Individual domestic and international strategic investments are discussed below.

Cisco Systems. Cisco Systems is a manufacturer of routers and other equipment to support Internet transmissions. As of March 14, 2000, Communications owns 422,938 shares, or less than one percent of Cisco's common stock.

Concentric. Concentric Network Corporation is a provider of Internet-based virtual and private networking services to business customers. As of March 14, 2000, Communications owns 4,633,716 shares, or 11 percent, of Concentric's common stock.

Sycamore Networks. Sycamore Networks is a manufacturer of cutting edge high-end fiber optic transmission equipment, especially DWDM equipment. As of March 14, 2000, Communications owns 252,000 shares, or less than one percent of Sycamore's common stock.

The Management Network Group. TMNG is a provider of strategy, management, operational and e-business consulting services to the global telecommunications industry. As of March 14, 2000, Communications owns 500,000 warrants to purchase TMNG's common stock at an exercise price of $2.50 per share.

UniDial. UniDial Communications, Inc. is a reseller of long distance and other communications products, including frame relay, Internet, and conferencing services. As of March 14, 2000, Communications estimates that its holdings of UniDial preferred stock would convert into approximately 12.3 percent of UniDial's common stock.

UtiliCom. UtiliCom Networks, Inc. partners with utilities to create joint ventures offering local exchange and other communications services. As of March 14, 2000, Communications owns 469,154 shares,

or four percent of UtiliCom's common stock. Communications also owns warrants to purchase an additional 200,000 shares at an exercise price of $3.00 per share.

Ziplink, Inc. Ziplink is a provider of wholesale Internet access services to developers and vendors of Internet appliances and local, regional and national Internet service appliances. As of March 14, 2000, Communications owns 216,964 shares, or approximately two percent of Ziplink's common stock.

Others. Network also owns investments in other domestic privately held companies, including NET-tel Communications, Prism Communication Services, Sonus Networks, Corvis Corporation, ONI Systems, Axient, Battery Convergence Fund, ClearData.net, Compass Telecommunications, Accelerated Networks, Zaffire, and Centennial Strategic Partners Fund.

BROADBAND MEDIA

Broadband Media provides worldwide transmission of live and non-live media content through integrated fiber-optic, satellite and teleport services. Services provided or under development include advertising hosting, news hosting, news gathering and production, Webcasting, and media asset management (which includes encoding, logging, storage/caching, and media streaming). Broadband Media is primarily comprised of Vyvx Services, CSI, Inc., and investments in companies providing content services.

Vyvx Services. Vyvx provides integrated fiber optic, satellite, and teleport video transmission services. Through Vyvx, Communications has gained experience in multimedia networks and has established high-speed connectivity to the major news and sports venues throughout the United States. Vyvx's broadcast customers include all major broadcast and cable television networks, news services, and professional and collegiate sports organizations. Considering its addressable markets for backhauling video content, Vyvx currently has 85 percent of the professional sports market, 65 percent of the live event market, and a 35 percent share in the transmission of television advertising. Vyvx has begun developing a MediaXtranet application infrastructure that will allow Vyvx to develop greater capabilities to function in the eBusiness and Internet environment and allow customers direct access to advertising spot storage and distribution. Communications owns 100 percent of Vyvx.

While Vyvx has approximately 2,000 active customers, approximately 40 percent of its total revenue is derived from its top ten customers. Vyvx's contracts with its largest customers are for terms that extend up to ten years. Most of its contracts with its smaller customers are for one-year terms. Vyvx's largest customer, Fox Entertainment Group, Inc., accounted for approximately nine percent of Communications' total revenues in 1999.

CSI, Inc. CSI, Inc. deploys touch-screen display units installed on stadium seats that provide access to statistics, different views of the field, player- and venue-related information and access to current information from other sports events. Communications owns 100 percent of the common stock and 28 percent of the preferred stock of CSI.

Others. Broadband Media also owns investments in other domestic privately held companies, including SporTVision and Avid Sports.

Revenues. In 1999, 1998, and 1997, Broadband Media contributed approximately 8.0, 9.1, and 11.1 percent, respectively, to Communications' total revenues.

SOLUTIONS

In April 1997, Communications purchased the equipment distribution business of Nortel Communications Systems, Inc., which it then combined with its equipment distribution business to create Williams Communications Solutions, LLC. Nortel's equipment distribution business included the combined net assets of Nortel's direct sales subsidiary, Nortel Communications Systems, Inc., which includes Bell Atlantic Meridian Systems and TTS Meridian Systems, Inc. Communications owns a 70 percent interest and Nortel owns a 30 percent interest in Solutions, LLC. Communications and Nortel have representation in proportion to their respective ownership interest on the management committee of Solutions, LLC. As long as Nortel's

interest in Solutions LLC is at least 20 percent, Nortel must approve, among other things, any changes to the scope of Solutions LLC's business; any non-budgeted capital expenditure over $5 million; any non-budgeted acquisition, divestiture or any other obligation over $20 million; and the incurrence of long-term debt in excess of equity.

Products and Services. Solutions operates approximately 110 sales and service offices in the U.S., Canada, and Mexico staffed with approximately 1,200 sales personnel. Solutions provides a comprehensive array of communications products and services. These products and services fall into three categories: equipment sales and service, professional services, and marketing of carrier services.

Revenues. In 1999, 1998, and 1997, Solutions contributed approximately 70.1, 77.3, and 82.3 percent, respectively, to Communications' total revenues.

Vendor relationships. Solutions has agreements with the suppliers of the products and providers of the services it sells to its customers. These agreements provide for Solutions to distribute, resale, or integrate products or act as agent for the provider of services. Solutions' primary vendor relationships are with Nortel, Cisco, Lucent, and NEC. By having relationships with multiple vendors, Solutions believes it can provide the best solution for each customer's specific needs. Solutions realizes that an interruption, or substantial modification, of its distribution relationships could have a material adverse effect on its business.

Customers. Solutions provides products and services to approximately 100,000 customer sites across a broad range of industries including businesses as well as educational, governmental, and non-profit institutions. These customers consist of small businesses (ten or more employees), small sites of larger companies, and large enterprise campus sites. Solutions is not dependent on any one customer or group of customers to achieve its desired results. Solutions' top 25 customers combined accounted for less than 25 percent of revenue during 1999, with no one customer accounting for more than 1 percent.

STRATEGIC INVESTMENTS

Through Strategic Investments, Communications makes investments in, or owns and operates, domestic and foreign businesses that extend Communications' reach. Individual strategic investments are discussed below.

ATL. ATL-Algar Telecom Leste S.A. provides digital cellular services in the Brazilian states of Rio de Janeiro and Espirito Santo, covering a population of approximately 16.1 million inhabitants. As of March 14, 2000, Communications owns 19 percent of ATL's common stock and 66 percent of ATL's preferred stock.

Telefonica Manquehue, S.A. Metrocom S.A. was a Chilean company formed to build, own, and operate a communications network providing local, Internet, data, and voice services to businesses and residences in the Santiago metropolitan area. Communications owned a 19.9 percent equity interest in Metrocom S.A. until January 31, 2000, when Metrocom merged with Telefonica Manquehue, S.A. As a result of that merger, Communications owns, as of March 14, 2000, 19.6 percent of Telefonica Manquehue, S.A.

Others. Strategic Investments holds investments in domestic privately held companies, including Internet Telemetry Corp. In addition, Williams has granted Williams Communications an option to acquire its interest in a holding company whose subsidiaries are communications service providers in Brazil (Algar Telecom).

Revenues. For 1999, 1998, and 1997, Strategic Investments contributed approximately 0.4, 1.9, and 3.7 percent, respectively, to Communications' total revenues.

STRATEGIC ALLIANCES AND RELATIONSHIPS

Communications has, and will continue to, enter into strategic alliances with communications companies to secure long-term, high-capacity commitments for traffic on its network and to enhance its service offerings. The most significant of these alliances are described briefly below.

SBC Communications Inc. SBC is a major communications provider in the U.S. that currently provides local services in the south central region of the U.S. and in California, Nevada, and Connecticut. In the fourth quarter of 1999, SBC acquired Ameritech, a major communications provider in the Midwest region of the United States.

On February 8, 1999, Communications entered into agreements with SBC under which:

- SBC must first seek to obtain domestic voice and data long distance services from Communications for 20 years.

- Communications must first seek to obtain select international wholesale services and various other services, including toll-free, operator, calling card and directory assistance services, from SBC for 20 years.

- Communications and SBC will sell each other's products to their respective customers and provide installation and maintenance of communications equipment and other services.

Intel Corporation. Intel is a manufacturer of chips and other computer, networking, and communications products. Intel recently announced the formation of its new business, Intel Online Services, to provide Internet Web-hosting services by building and managing data centers around the world that will support the Web sites of third parties.

On May 24, 1999, Communications and Intel, on behalf of Intel Online Services, entered into a ten-year master alliance agreement. The alliance agreement provides that Communications and Intel Online Services will purchase services from one another pursuant to a service agreement and create a co-marketing arrangement, each of which will be for a three-year term renewable for one-year terms thereafter. The services Communications will provide include domestic transport services. Intel will provide Web hosting services pursuant to the co-marketing arrangement. Subject to Communications' meeting pricing, quality of service and other specifications, Intel Online Services will purchase a significant portion of its yearly domestic transport requirements from Communications.

Telefonos de Mexico S.A. de C.V. Telefonos de Mexico, S.A. de C.V. (TelMex), the largest communications provider in Mexico, currently provides long distance and local services primarily in Mexico.

On May 25, 1999, Communications entered alliance agreements with TelMex under which, subject to any necessary U.S. and Mexican regulatory requirements:

- TelMex must first seek to obtain select international wholesale services and various other services from Communications for 20 years.

- Communications must first seek to obtain select international wholesale services and various other services from TelMex for 20 years.

In addition, Williams Communications and TelMex have entered into an interconnection agreement and are negotiating additional agreements for the purchase and sale of telecommunications services.

WinStar. WinStar Communications, Inc. uses wireless technology to provide high-capacity local exchange and Internet access services to companies located generally in buildings not served by fiber optic cable.

On December 17, 1998, Communications entered into two agreements with WinStar under which:

- Communications has a 25-year right to use approximately 2% of WinStar's wireless local capacity, which is planned to cover the top 50 U.S. markets.

- WinStar has a 25-year right to use four strands of fiber optic cable over 15,000 route miles on the Communications network, a transmission capacity agreement with an obligation to lease specified circuits from Communications for at least 20-year terms and an agreement for collocation and maintenance services.

U S WEST. U S WEST, Inc. is a communications provider with operations in the western region of the U.S. Communications entered into an agreement with U S WEST, effective January 1998, which provides that the two companies will work together to provide data networking services to a variety of customers. Communications also provides various services to U S WEST.

Intermedia. Intermedia Communications, Inc. provides a wide range of local, long distance and Internet services. In April 1998, Intermedia executed an agreement providing for a 20-year right to use Communications' nationwide transmission capacity.

REGULATORY MATTERS

Network. Williams Communications, Inc., a wholly owned subsidiary of Communications, is subject to Federal Communications Commission (FCC) regulations as a common carrier with regard to certain of its transmission services. An FCC rulemaking to eliminate domestic, common carrier tariffs has been stayed pending judicial review. In the interim, the FCC is requiring such carriers to operate under traditional tariff rules. Operations of microwave communications, satellite earth stations, and certain other related transmission facilities are also subject to FCC licensing and other regulations. These regulations do not significantly impact Williams Communications, Inc.'s operations. In 1997 the FCC began implementation of the Universal Service Fund contemplated in the Telecommunications Act of 1996. Williams Communications, Inc. is required to contribute to this fund based upon certain revenues.

In addition, Williams Communications, Inc. is authorized to provide intrastate transmission services in each state and is subject to various rules and regulations in those states in which it provides intrastate transmission services.

Solutions. The equipment sold by Solutions must meet the requirements of Part 68 of the FCC rules governing the equipment registration, labeling, and connection of equipment to telephone networks. Solutions relies on the equipment manufacturers' compliance with these requirements for its own compliance regarding the equipment it distributes. These regulations have a minimal impact on Solutions' operations.

In addition, Communications is subject to various rules and regulations in those foreign jurisdictions in which it has international operations or investments.

COMPETITION

Network. The communications industry is highly competitive. Some competitors in the carrier services and fiber optic network business segments may have personnel, financial, or other competitive advantages. New competitors may enter the market because of increased consolidation and strategic alliances resulting from the Telecommunications Act of 1996, as well as technological advances and further deregulation. In the market for carrier services, Network competes primarily with the three traditional nationwide carriers, AT&T, MCI WorldCom, and Sprint, and other coast-to-coast and regional fiber optic network providers, such as Qwest, Level 3, and Broadwing. Network competes primarily on the basis of pricing, transmission quality, network reliability, and customer service and support. Network has only recently begun to offer some of its services and products and as a result may have fewer and less well established customer relationships than some of its competitors.

Network believes that it has advantages over its competitors. AT&T, MCI WorldCom, and Sprint utilize systems that were constructed for the most part prior to 1990. Network believes that the older systems operated by these carriers generally face disadvantages when compared to the Communications network, such as lower transmission speeds; lower overall capacity; more costly maintenance requirements; inefficiency due to design and competing traffic requirements; and greater susceptibility to systems interruption from physical damage to the network infrastructure.

The prices that Network can charge its customers for transmission capacity on its network could decline due to installation by Network and its competitors, some of which are expanding capacity on their existing networks or developing new networks, of fiber and related equipment that would provide substantially more

transmission capacity than currently needed. If prices for network services significantly decline, Network may experience a decline in revenues, which would have a material adverse effect on its operations.

Network believes that its strategy of selling products and services to other communications carriers gives it an advantage over other fiber optic network providers who compete with their customers. Network believes that communications carriers prefer not to buy products and services from a competitor. Network also does not need a large sales, marketing, and customer service staff in order to support the retail markets that its competitors serve. Network can effectively reach and serve a relatively small group of large customers with a small, more efficient, and more focused team, resulting in reduced costs.

Broadband Media. Vyvx competes based primarily on service quality and reliability and network reach and, to a lesser extent, on price. Vyvx's competitors include some of the largest domestic and international communications companies, which have greater financial resources and name recognition. Vyvx is at a disadvantage in international broadcasting because its competitors have greater international presence.

Solutions. Solutions' competition comes from communications equipment distributors, network integrators, and manufacturers of equipment (including in some instances those manufacturers whose products Solutions also sells). Solutions competitors include Norstan, Inc., Lucent, Siemens, Cisco Systems and the equipment divisions of GTE, Sprint, and the regional Bell operating companies. Most equipment distributors tend to be regionally focused and do not have Solutions' capability to service a nationwide customer base. Solutions believes its expertise in voice technologies and its ability to provide comprehensive solutions give it an advantage over network integrators. Solutions operates in a highly competitive industry and faces competition from companies that may have significantly greater financial, technical, and marketing resources. Some of Solutions' competitors have strong existing relationships with Solutions' customers and potential customers resulting in a competitive disadvantage for Solutions. Solutions is also at a disadvantage in that its costs exceed those of manufacturers, limiting its ability to engage in price competition with such manufacturers. However, most manufacturers of equipment are focused on selling their own equipment and do not provide converged solutions.

ENVIRONMENTAL MATTERS

Communications is subject to federal, state, and local laws and regulations relating to the environmental aspects of its business. Management believes that Communications' operations are in substantial compliance with existing environmental legal requirements. Management expects that compliance with such existing environmental legal requirements will not have a material adverse effect on the capital expenditures, earnings, and competitive position of Communications.

WILLIAMS INTERNATIONAL COMPANY

Williams International Company, through subsidiaries, has made direct investments in energy projects primarily in South America and Lithuania and continues to explore and develop additional projects for international investment. Williams International also has investments in energy, telecommunications, and infrastructure development funds in Asia and South America.

El Furrial. Williams International owns a 67 percent interest in a venture near the El Furrial field in eastern Venezuela that constructed, owns, and operates medium and high pressure gas compression facilities for Petroleos de Venezuela S.A. (PDVSA), the state owned petroleum corporation of Venezuela.

The medium pressure facility has compression capacity of 130 MMcf per day of raw natural gas from 100 to 1,200 p.s.i.g. for delivery into a natural gas processing plant owned by PDVSA. The high pressure facility has compression capacity of 650 MMcf per day of processed natural gas from 1,100 to 7,500 p.s.i.g. for injection into PDVSA's El Furrial producing field.

Jose Terminal. In November 1998, a consortium in which Williams International owns 45 percent, entered into an agreement with PDVSA to purchase the Jose Terminal, an 800,000 Bbp per day crude oil storage and shiploading facility in northeastern Venezuela, for a 20-year renewable term. As part of the transaction, PDVSA, directly and indirectly through its partners, has committed to store and shipload approximately 750,000 to 850,000 Bbp per day of crude oil during the first 20 years of the transaction. Williams International began interim operations in the second quarter of 1999 and continues to operate the facility. Formal closing has not yet occurred.

Pigap II. In April 1999, a consortium in which Williams International owns 70 percent entered into an agreement with PDVSA Petroleo y Gas, S.A., to develop, design, construct, operate, maintain, and own a high pressure natural gas injection facility and related infrastructure to take gas, process it, and deliver it for injection for secondary recovery of oil from the Santa Barbara/Pirital oil fields located in North Monogas, Venezuela for an initial term of 20 years. Williams International commenced construction in February 2000.

AB Mazeikiu Nafta. In October 1999, Williams entered into an agreement with the Government of Lithuania to acquire a 33 percent ownership interest and the right to operate AB Mazeikiu Nafta (MN). MN consists of a 320,000 barrel per day refinery, the crude oil and refined product pipeline systems within Lithuania, and a 160,000 barrel per day crude export facility on the Baltic Sea. Williams commenced operating these assets in October 1999.

Apco Argentina. Williams International also owns an interest in Apco Argentina Inc., an oil and gas exploration and production company with operations in Argentina whose securities are traded in the Nasdaq Stock Market. Apco Argentina's principal business is its 47.6 percent interest in the Entre Lomas concession in southwest Argentina. It also owns a 45 percent interest in the Canadon Ramirez concession and a 1.5 percent interest in the Acambuco concession.

At December 31, 1999, 1998, and 1997, estimated developed, proved reserves net to Apco Argentina were 20.0, 15.5, and 23.7 million barrels, respectively, of oil, condensate, and plant products, and 51.1, 26.8, and 35.8 Bcf, respectively, of natural gas. Estimated undeveloped, proved reserves net to Apco Argentina were 9.0, 5.1, and 9.5 million barrels, respectively, of oil, condensate, and plant products, and 20.6 Bcf, 700 MMcf, and 800 MMcf, respectively, of natural gas.

At December 31, 1999, the gross and net developed concession acres owned by Apco Argentina totaled 39,108 acres and 17,674 acres, respectively, and the gross and net undeveloped concession acres owned were 502,892 acres and 114,912 acres, respectively. At December 31, 1999, Apco Argentina owned interests in 306 gross producing wells and 142 net producing wells on its concession acreage.

Total net production sold during 1999, 1998, and 1997 was 1.7, 1.7, and 1.8 million barrels, respectively, of oil, condensate, and plant products, and 7.1, 7.7, and 7.7 Bcf, respectively, of natural gas. The average production costs, including all costs of operations such as remedial well workovers and depreciation of property and equipment, per barrel of oil produced were $8.26, $9.09, and $8.27, respectively, and per Mcf of natural gas produced were $.21, $.23, and $.21, respectively. The average wellhead sales price per barrel of oil sold were $17.75, $12.71, and $19.52, respectively, and per Mcf of natural gas sold were $1.35, $1.33, and $1.34, respectively, for the same periods.

OTHER INFORMATION

Williams believes that it has adequate sources and availability of raw materials to assure the continued supply of its services and products for existing and anticipated business needs. Williams' pipeline systems are all regulated in various ways resulting in the financial return on the investments made in the systems being limited to standards permitted by the regulatory bodies. Each of the pipeline systems has ongoing capital requirements for efficiency and mandatory improvements, with expansion opportunities also necessitating periodic capital outlays.

At December 31, 1999, Williams had approximately 21,000 full-time employees, of whom approximately 1,900 were represented by unions and covered by collective bargaining agreements. In September 1998, Williams created three new companies in order to streamline payroll processing and reduce costs. In connection with this, Williams transferred its employees to one of these companies, and the employees are now jointly employed by Williams and one of these new companies. This change had no impact on Williams' management structure or on its employees' seniority and benefits. Williams considers its relations with its employees to be generally good.

FORWARD-LOOKING STATEMENTS

Certain matters discussed in this report, excluding historical information, include forward-looking statements -- statements that discuss Williams' expected future results based on current and pending business operations. Williams makes these forward-looking statements in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995.

Forward-looking statements can be identified by words such as "anticipates," "believes," "expects," "planned," "scheduled" or similar expressions. Although Williams believes these forward-looking statements are based on reasonable assumptions, statements made regarding future results are subject to numerous assumptions, uncertainties and risks that may cause future results to be materially different from the results stated or implied in this document.

The following are important factors that could cause actual results to differ materially from any results projected, forecasted, estimated or budgeted:

- Changes in general economic conditions in the United States.

- Changes in laws and regulations to which Williams is subject, including tax, environmental and employment laws and regulations.

- The cost and effects of legal and administrative claims and proceedings against Williams or its subsidiaries.

- Conditions of the capital markets Williams utilizes to access capital to finance operations.

- The ability to raise capital in a cost-effective way.

- The effect of changes in accounting policies.

- The ability to manage rapid growth.

- The ability to control costs.

- The ability of each business unit to successfully implement key systems, such as order entry systems and service delivery systems.

- Changes in foreign economies, currencies, laws and regulations, and political climates, especially in Argentina, Brazil, Chile, Venezuela, Lithuania and Australia, where Williams has made direct investments.

- The impact of future federal and state regulations of business activities, including allowed rates of return, the pace of deregulation in retail natural gas and electricity markets, and the resolution of other regulatory matters discussed herein.

- Fluctuating energy commodity prices.

- The ability of Williams' energy businesses to develop expanded markets and product offerings as well as their ability to maintain existing markets.

- The ability of both the Gas Pipeline unit and the Energy Services unit to obtain governmental and regulatory approval of various expansion projects.

- The ability of customers of the energy marketing and trading business to obtain governmental and regulatory approval of various projects, including power generation projects.

- Future utilization of pipeline capacity, which can depend on energy prices, competition from other pipelines and alternative fuels, the general level of natural gas and petroleum product demand, decisions by customers not to renew expiring natural gas transportation contracts, and weather conditions.

- The accuracy of estimated hydrocarbon reserves and seismic data.

- Successful completion of the communications network build within budget and schedule.

- The ability to successfully market capacity on the communications network.

- SBC Communications' ability to obtain regulatory approval to provide long-distance communications services within markets in which it currently provides local services.

- Successful implementation by Williams Communications of its strategy to build a local access infrastructure.

- Technological developments, high levels of competition, lack of customer diversification, and general uncertainties of government regulation in the communications industry.

- Significant competition on pricing and product offerings for Communications' Solutions business unit.

- The ability of Communications' Solutions business to introduce and market competitive products and services.

(d) FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

Williams has no significant amounts of revenue or segment profit or loss attributable to export sales. See Item 1(c) for a description of Williams Energy's and Williams International's export sales activities.

ITEM 2. PROPERTIES

See Item 1(c) for description of properties.

ITEM 3. LEGAL PROCEEDINGS

For information regarding certain proceedings pending before federal regulatory agencies, see Note 19 of Notes to Consolidated Financial Statements. Williams is also subject to other ordinary routine litigation incidental to its businesses.

Environmental matters. Since 1989, Texas Gas and Transcontinental Gas Pipe Line have had studies under way to test certain of their facilities for the presence of toxic and hazardous substances to determine to what extent, if any, remediation may be necessary. Transcontinental Gas Pipe Line has responded to data requests regarding such potential contamination of certain of its sites. The costs of any such remediation will depend upon the scope of the remediation. At December 31, 1999, these subsidiaries had accrued liabilities totaling approximately $27 million for these costs.

Certain Williams subsidiaries, including Texas Gas and Transcontinental Gas Pipe Line, have been identified as potentially responsible parties (PRP) at various Superfund and state waste disposal sites. In addition, these subsidiaries have incurred, or are alleged to have incurred, various other hazardous materials

removal or remediation obligations under environmental laws. Although no assurances can be given, Williams does not believe that these obligations or the PRP status of these subsidiaries will have a material adverse effect on its financial position, results of operations or net cash flows.

Transcontinental Gas Pipe Line, Texas Gas and Central have identified polychlorinated biphenyl (PCB) contamination in air compressor systems, soils and related properties at certain compressor station sites. Transcontinental Gas Pipe Line, Texas Gas and Central have also been involved in negotiations with the U.S. Environmental Protection Agency (EPA) and state agencies to develop screening, sampling and cleanup programs. In addition, negotiations with certain environmental authorities and other programs concerning investigative and remedial actions relative to potential mercury contamination at certain gas metering sites have been commenced by Central, Texas Gas and Transcontinental Gas Pipe Line. As of December 31, 1999, Central had accrued a liability for approximately $11 million, representing the current estimate of future environmental cleanup costs to be incurred over the next six to 10 years. Texas Gas and Transcontinental Gas Pipe Line likewise had accrued liabilities for these costs which are included in the $27 million liability mentioned above. Actual costs incurred will depend on the actual number of contaminated sites identified, the actual amount and extent of contamination discovered, the final cleanup standards mandated by the EPA and other governmental authorities and other factors. Texas Gas, Transcontinental Gas Pipe Line and Central have deferred these costs as incurred pending recovery through future rates and other means.

Transcontinental Gas Pipe Line received a letter stating that the U.S. Department of Justice (DOJ), at the request of the EPA, intends to file a civil action against Transcontinental Gas Pipe Line arising from its waste management practices at Transcontinental Gas Pipe Line's compressor stations and metering stations in 11 states from Texas to New Jersey. DOJ stated in the letter that its complaint will seek civil penalties and injunctive relief under federal environmental laws. DOJ and Transcontinental Gas Pipe Line are discussing a settlement. While no specific amount was proposed, DOJ stated that any settlement must include an appropriate civil penalty for the alleged violations. Transcontinental Gas Pipe Line cannot reasonably estimate the amount of its potential liability, if any, at this time. However, Transcontinental Gas Pipe Line believes it has substantially addressed environmental concerns on its system through ongoing voluntary remediation and management programs.

Energy Services (WES) also accrues environmental remediation costs for its natural gas gathering and processing facilities, petroleum products pipelines, retail petroleum, refining and propane marketing operations primarily related to soil and groundwater contamination. At December 31, 1999, WES and its subsidiaries had accrued liabilities totaling approximately $42 million. WES recognizes receivables related to environmental remediation costs based upon an estimate of amounts that will be reimbursed from state funds for certain expenses associated with underground storage tank problems and repairs. At December 31, 1999, WES and its subsidiaries had accrued receivables totaling $19 million.

Williams Field Services (WFS), a WES subsidiary, received a Notice of Violation (NOV) from the EPA in February 2000. WFS received a contemporaneous letter from the DOJ indicating that DOJ will also be involved in the matter. The NOV alleged violations of the Clean Air Act at a gas processing plant. WFS intends to defend this matter, but cannot reasonably estimate the amount of potential liability, if any, at this time. EPA, DOJ, and WFS have scheduled settlement negotiation meetings beginning in March 2000.

In connection with the 1987 sale of the assets of Agrico Chemical Company, Williams agreed to indemnify the purchaser for environmental cleanup costs resulting from certain conditions at specified locations, to the extent such costs exceed a specified amount. At December 31, 1999, Williams had approximately $13 million accrued for such excess costs. The actual costs incurred will depend on the actual amount and extent of contamination discovered, the final cleanup standards mandated by the EPA or other governmental authorities, and other factors.

Other legal matters. In connection with agreements to resolve take-or-pay and other contract claims and to amend gas purchase contracts, Transcontinental Gas Pipe Line and Texas Gas each entered into certain settlements with producers which may require the indemnification of certain claims for additional royalties which the producers may be required to pay as a result of such settlements. As a result of such settlements, Transcontinental Gas Pipe Line is currently defending two lawsuits brought by producers. In one of the cases,

a jury verdict found that Transcontinental Gas Pipe Line was required to pay a producer damages of $23.3 million including $3.8 million in attorneys' fees. Transcontinental Gas Pipe Line is pursuing an appeal. In the other case, a producer has asserted damages, including interest calculated through December 31, 1997, of approximately $6 million. Producers have received and may receive other demands, which could result in additional claims. Indemnification for royalties will depend on, among other things, the specific lease provisions between the producer and the lessor and the terms of the settlement between the producer and either Transcontinental Gas Pipe Line or Texas Gas. Texas Gas may file to recover 75 percent of any such additional amounts it may be required to pay pursuant to indemnities for royalties under the provisions of Order 528.

In connection with the sale of certain coal assets in 1996, MAPCO entered into a Letter Agreement with the buyer providing for indemnification by MAPCO for reductions in the price or tonnage of coal delivered under a certain pre-existing Coal Sales Agreement dated December 1, 1986. The Letter Agreement is effective for reductions during the period July 1, 1996, through December 31, 2002, and provides for indemnification for such reductions as incurred on a quarterly basis. On October 7, 1999, MAPCO settled buyer's claims for indemnification under the Letter Agreement and certain other unrelated claims in exchange for payment by MAPCO in the amount of $35 million that had been accrued in prior years.

In 1998, the United States Department of Justice informed Williams that Jack Grynberg, an individual, had filed claims in the United States District Court for the District of Colorado under the False Claims Act against Williams and certain of its wholly owned subsidiaries including Williams Gas Pipelines Central, Kern River Gas Transmission, Northwest Pipeline, Williams Gas Pipeline Company, Transcontinental Gas Pipe Line Corporation, Texas Gas, Williams Field Services Company and Williams Production Company. Mr. Grynberg has also filed claims against approximately 300 other energy companies and alleges that the defendants violated the False Claims Act in connection with the measurement and purchase of hydrocarbons. The relief sought is an unspecified amount of royalties allegedly not paid to the federal government, treble damages, a civil penalty, attorneys' fees, and costs. On April 9, 1999, the United States Department of Justice announced that it was declining to intervene in any of the Grynberg qui tam cases, including the action filed against the Williams entities in the United States District Court for the District of Colorado. On October 21, 1999, the Panel on Multi-District Litigation transferred all of the Grynberg qui tam cases, including the ones filed against Williams, to the United States District Court for the District of Wyoming for pre-trial purposes.

Shrier v. Williams was filed on August 4, 1999, in the U.S. District Court for the Northern District of Oklahoma. Oxford v. Williams was filed on September 3, 1999, in state court in Jefferson County, Texas. The Oxford complaint was amended to add an additional plaintiff on September 24, 1999. On October 1, 1999, the case was removed to the U.S. District Court for the Eastern District of Texas, Beaumont Division. Plaintiffs have filed a motion seeking to remand the case back to state court. In each lawsuit, the plaintiff seeks to bring a nationwide class action on behalf of all landowners on whose property the plaintiffs have alleged Williams Communications Group, Inc. (WCG) installed fiber-optic cable without the permission of the landowner. The plaintiffs are seeking a declaratory ruling that WCG is trespassing, damages resulting from the alleged trespass, damages based on WCG's profits from use of the property and damages from alleged fraud. Relief requested by the plaintiff includes injunction against further trespass, actual and punitive damages, and attorneys' fees.

Williams believes that installation of the cable containing the single-fiber network that crosses over or near the named plaintiffs' land does not infringe on the plaintiffs' property rights. Williams also does not believe that the plaintiffs in these lawsuits have sufficient basis for certification of a class action. The proposed composition of the class in the Oxford lawsuit appears to include only landowners who would also be included in the class proposed in the Shrier suit. Other communications carriers have been successfully challenged with respect to their rights to use railroad rights of way, which are also challenged by the plaintiffs in Shrier and Oxford. Approximately 15 percent of the WCG network is installed on railroad rights of way. In many areas, the railroad granting WCG the license holds full ownership of the land, in which case its license should be sufficient to give WCG valid rights to cross the property. In some states where the railroad is not the property owner but has an easement over the property, the law is unsettled as to whether a landowner's approval is required. WCG generally did not obtain landowner approval where the rights of way are located on railroad

easements. In most states, WCG has eminent domain rights which WCG believes would limit the liability for any trespass damages. It is likely that WCG will be subject to other purported class action suits challenging the use of railroad or pipeline rights of way. WCG cannot quantify the impact of all such claims at this time.

Summary

While no assurances may be given, Williams does not believe that the ultimate resolution of the foregoing matters, taken as a whole and after consideration of amounts accrued, insurance coverage, recovery from customers, or other indemnification arrangements, will have a materially adverse effect upon Williams' future financial position, results of operations, or cash flow requirements.

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

Not applicable.

EXECUTIVE OFFICERS OF WILLIAMS

The names, ages, positions, and earliest election dates of the executive officers of Williams are:

NAME	AGE	POSITIONS AND OFFICES HELD	HELD OFFICE SINCE
Keith E. Bailey	57	Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)	05-19-94
John C. Bumgarner, Jr.	57	Senior Vice President -- Corporate Development and Planning; President -- Williams International Company; Senior Vice President -- Strategic Investments, Williams Communications	01-01-79
James R. Herbster	58	Senior Vice President -- Administration	01-01-92
Michael P. Johnson, Sr	52	Senior Vice President -- Human Resources	05-01-99
Jack D. McCarthy	57	Senior Vice President -- Finance (Principal Financial Officer)	01-01-92
William G. von Glahn	56	Senior Vice President and General Counsel	08-01-96
Gary R. Belitz	50	Controller (Principal Accounting Officer)	01-01-92
Steven J. Malcolm	51	President and Chief Executive Officer -- Williams Energy Services	12-01-98
Howard E. Janzen	46	President and Chief Executive Officer -- Williams Communications, Inc.	02-11-97
Cuba Wadlington, Jr.*	56	President and Chief Executive Officer -- Williams Gas Pipeline Company	01-01-00

Except for Mr. Johnson, all of the above officers have been employed by Williams or its subsidiaries as officers or otherwise for more than five years and have had no other employment during the period. Prior to joining Williams, Mr. Johnson held various officer positions with Amoco Corporation for more than five years.

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* Mr. Wadlington was named Chief Operating Officer of Williams Gas Pipeline Company on July 1, 1999, upon the announcement of the retirement of Mr. Brian E. O'Neill. Upon Mr. O'Neill's retirement on January 1, 2000, Mr. Wadlington was elected President and Chief Executive Officer of Williams Gas Pipeline Company.

PART II

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

Williams' Common Stock is listed on the New York and Pacific Stock exchanges under the symbol "WMB." At the close of business on December 31, 1999, Williams had approximately 14,815 holders of record of its Common Stock. The high and low sales price ranges (composite transactions) and dividends declared by quarter for each of the past two years are as follows:

	1999			1998		
QUARTER	HIGH	LOW	DIVIDEND	HIGH	LOW	DIVIDEND
1st	$41.00	$28.75	$.15	$34.88	$26.25	$.15
2nd	$53.75	$38.81	$.15	$35.75	$28.81	$.15
3rd	$46.38	$34.19	$.15	$36.94	$20.00	$.15
4th	$39.88	$28.00	$.15	$31.88	$24.88	$.15

Terms of certain subsidiaries' borrowing arrangements limit the transfer of funds to Williams. These terms have not impeded, nor are they expected to impede, Williams' ability to meet its cash flow needs.

ITEM 6. SELECTED FINANCIAL DATA

The following financial data as of December 31, 1999 and 1998 and for the three years ended December 31, 1999 are an integral part of, and should be read in conjunction with, the consolidated financial statements and notes thereto. All other amounts have been prepared from the Company's financial records. Certain amounts below have been restated or reclassified (see Note 1). Information concerning significant trends in the financial condition and results of operations is contained in Management's Discussion and Analysis of Financial Condition and Results of Operations on pages F-2 through F-19 of this report.

	1999	1998	1997	1996	1995
	(MILLIONS, EXCEPT PER-SHARE AMOUNTS)				
Revenues(1)	$ 8,593.1	$ 7,658.3	$ 8,249.5	$ 6,849.0	$ 5,695.6
Income from continuing operations(2)	161.8	141.4	436.8	505.3	366.5
Income (loss) from discontinued operations(3)	--	(14.3)	(6.3)	(32.7)	1,029.3
Extraordinary gain (loss)(4)	65.2	(4.8)	(79.1)	--	--
Cumulative effect of change in accounting principal(5)	(5.6)	--	--	--	--
Diluted earnings per share:					
Income from continuing operations	.36	.31	1.01	1.17	.86
Income (loss) from discontinued operations	--	(.03)	(.01)	(.08)	2.49
Extraordinary gain (loss)	.15	(.01)	(.19)	--	--
Cumulative effect of change in accounting principle	(.01)	--	--	--	--
Total assets at December 31	25,288.5	18,647.3	16,282.8	14,611.6	12,853.2
Long-term obligations at December 31	9,235.3	6,366.4	5,351.5	4,985.3	3,675.0
Williams obligated mandatorily redeemable preferred securities of Trust at December 31	175.5	--	--	--	--
Stockholders' equity at December 31(6)	5,585.2	4,257.4	4,237.8	4,036.9	3,828.9
Cash dividends per common share	.60	.60	.54	.47	.36

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(1) See Note 1 for discussion of the 1998 change in the reporting of certain marketing activities from a "gross" basis to a "net" basis consistent with fair value accounting. See Note 2 for discussion of Williams' 1997 acquisition of Nortel's customer premise equipment sales and service operations.

(2) See Notes 2 and 5 for discussion of the gain on sale of interest in subsidiary and asset sales, impairments and other accruals in 1999, 1998 and 1997. Income from continuing operations in 1996 includes a $15.7 million pre-tax gain from the sale of certain communications rights and a $20.8 million pre-tax gain from the sale of certain propane and liquid fertilizer assets. Income from continuing operations in 1995 includes a $41.4 million pre-tax charge related to the cancellation of a commercial coal gasification venture and a $16 million after-tax gain related to the sale of Williams' 15 percent interest in Texasgulf, Inc.

(3) See Note 3 for the discussion of the 1998 and 1997 losses from discontinued operations. The loss from discontinued operations for 1996 includes a $47.2 million after-tax loss related to the sale of the MAPCO coal business offset by $14.5 million in 1996 income from these operations. The income from discontinued operations for 1995 primarily relates to the $1 billion after-tax gain from the 1995 sale of Williams' network services operations.

(4) See Note 7 for discussion of the 1999 extraordinary gain and 1998 and 1997 extraordinary losses.

(5) See Note 1 for discussion of the adoption in 1999 of Statement of Position 98-5, "Reporting on the Cost of Startup Activities."

(6) See Note 15 for discussion of the 1999 issuance of subsidiary's common stock.

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

RESULTS OF OPERATIONS

1999 vs. 1998

CONSOLIDATED OVERVIEW. Williams' revenues increased $935 million, or 12 percent, due primarily to higher revenues from increased petroleum products and natural gas liquids sales volumes and average sales prices, increased revenues from retail natural gas and electric activities following a late 1998 acquisition, higher natural gas services revenues and increases in Communications' dark fiber lease revenues and new business growth. In addition, revenues increased due to the acquisition of a petrochemical plant in 1999, higher revenues from fleet management and mobile computer technology operations and reductions of rate refund liabilities at Gas Pipeline. Partially off-setting these increases were the effects in 1999 of reporting certain revenues net of costs within Energy Services (see Note 1 of Notes to Consolidated Financial Statements), lower pipeline construction revenues and lower electric power services revenues reflecting, in part, the designation of an electric power contract as trading following the adoption in 1999 of EITF 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities."

Segment costs and expenses increased $824 million, or 12 percent, due primarily to higher costs related to increased petroleum products and natural gas liquids volumes purchased and average purchase prices, higher retail natural gas and electric costs following a late 1998 acquisition, higher costs and expenses from growth of Communications' Network operations and infrastructure, $33.9 million of 1999 losses and asset impairments at Communications, increased fleet management and mobile computer technology operations and higher selling, general and administrative expenses. In addition, 1999 includes $10.5 million of expense associated with a Williams-wide incentive program. Partially offsetting these increases were the effects in 1999 of reporting certain costs net in revenues within Energy Services (see Note 1), lower electric power services costs, lower pipeline construction costs and $45 million of gains from asset sales by Energy Services in 1999. In addition, 1998 included $80 million of MAPCO merger-related costs (including $29 million within general corporate expenses) (see Note 2), a $58.4 million charge at Gas Pipeline related to certain long-term gas supply contracts (see Note 19), $29 million of asset write-downs at Communications and $31 million of retail natural gas and electric credit loss accruals and asset impairments at Energy Services.

Operating income increased $132 million, or 18 percent, due primarily to increases at Energy Services and Gas Pipeline of $105 million and $87 million, respectively, and the effect in 1998 of MAPCO merger-related costs totaling $80 million, partially offset by $125 million higher losses at Communications. Energy Services' increase reflects improved natural gas trading activities, increased natural gas liquids volumes and margins, $45 million in gains from the sales of assets and the effect in 1998 of $31 million of retail natural gas and electric credit loss accruals and asset impairments, partially offset by higher selling, general and administrative expenses and lower results from electric power trading activities and retail petroleum operations. Gas Pipeline's increase reflects the net favorable revenue effect of 1999 and 1998 adjustments associated with regulatory and rate issues and the effect of the $58.4 million charge in 1998 related to certain long-term gas supply contracts. The additional losses at Communications reflect higher selling, general and administrative expenses, including costs associated with infrastructure growth and improvement, losses experienced from providing customer services prior to completion of the new network and $31 million higher losses from start-up activities of Australian and Brazilian communications operations.

Income from continuing operations before income taxes, extraordinary gain (loss) and cumulative effect of change in accounting principle increased $74 million, or 30 percent, due primarily to $132 million higher operating income, $43 million of higher investing income and the effect of 1998 litigation loss accruals and other settlement adjustments totaling $11 million, partially offset by $114 million higher net interest expense reflecting increased debt in support of continued expansion and new projects.

At December 31, 1999, Williams changed the discount rate assumption for use in calculating pension expense for 2000 from the rate used in 1999 as a result of changes in market rates. This change is expected to decrease pension expense approximately $14 million in 2000.

GAS PIPELINE

GAS PIPELINE'S revenues increased $146.8 million, or 9 percent, due primarily to a total of $66 million of reductions to rate refund liabilities, resulting primarily from second-quarter 1999 regulatory proceedings involving rate-of-return methodology for three of the gas pipelines and fourth-quarter 1999 revisions following other regulatory proceedings. Revenues also increased due to $65 million higher gas exchange imbalance settlements, $36 million higher reimbursable costs passed through to customers (both offset in costs and operating expenses) and $14 million from expansion projects and new services. These increases were partially offset by $21 million of favorable 1998 adjustments from the settlement of rate case issues and lower transportation revenues associated with rate design and discounting on certain segments of the pipeline.

Segment costs and expenses increased $59.9 million, or 6 percent, due primarily to the higher gas exchange imbalance settlements and reimbursable costs which are passed through to customers, $13 million higher general and administrative expenses and $9 million higher depreciation and amortization related mainly to pipeline expansions. These increases were partially offset by the effect of a $58.4 million charge in 1998 (included in other expense -- net) related to certain long-term gas supply contracts entered into in 1982. The charge represented natural gas costs incurred in prior years that will not be recoverable from customers (see Note 19). General and administrative expenses increased primarily from information systems initiatives, higher labor and benefits costs, a $2.3 million accrual for damages associated with two pipeline ruptures in the northwest and the $2 million write-off of previously capitalized software development costs.

Segment profit increased $86.9 million, or 14 percent, due primarily to the $45 million net revenue effect of the regulatory and rate case issues discussed above, the $58.4 million effect of the accrual for costs in 1998 related to certain long-term gas supply contracts discussed above and $14 million of revenues from expansion projects and new services. These segment profit increases were partially offset by $9 million higher depreciation and amortization and $13 million higher general and administrative expenses.

On March 17, 2000, Gas Pipeline received a favorable order from the Federal Energy Regulatory Commission related to the rate of return and capital structure issues in a regulatory proceeding. Gas Pipeline is evaluating the effect of the order. Preliminary indications are that rate refund liabilities may be considerably reduced in 2000.

ENERGY SERVICES

ENERGY MARKETING & TRADING'S revenues increased $156.8 million, or 10 percent, due to a $101.5 million increase in trading revenues and a $55.3 million increase in non-trading revenues. The $101.5 million increase in trading revenues is due primarily to $61 million higher natural gas trading margins, which reflect $61 million of favorable contract settlements in 1999 and increased trading volumes and per-unit margins, partially offset by the effect in 1998 of certain favorable contract settlements and terminations totaling $24 million. In addition, natural gas liquids margins increased $23 million associated mainly with increased physical trading activities and electric power trading margins increased $14 million. The electric power trading margin increase reflects the designation of a southern California electric power services contract as trading in accordance with EITF 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities," which was adopted first-quarter 1999, the recognition of $7 million of revenue associated with a 1998 contractual dispute which was settled in 1999 and increased trading activity. Largely offsetting these electric power trading revenue increases were lower demand for electricity in southern California in 1999 compared to 1998 due to cooler summer temperatures in 1999.

The $55.3 million non-trading revenue increase is due primarily to $150 million higher refined product revenues resulting from higher average sales prices and increased sales volumes primarily reflecting the 1999 and 1998 expansions/improvements at the Memphis refinery. In addition, retail natural gas and electric revenues increased $131 million resulting primarily from the late 1998 acquisition of Volunteer Energy. Partially offsetting these increases were $211 million lower electric power services revenues primarily related to the designation of a southern California electric power services contract as trading in 1999 (discussed above). Additionally, natural gas liquids revenues decreased slightly as the effect in first-quarter 1999 of

reporting trading revenues on a net basis for certain operations previously reported on a "gross" basis was substantially offset by $111 million contributed by activity from a petrochemical plant acquired early in 1999.

Cost of sales associated with non-trading activities increased $92.9 million, or 8 percent, due primarily to higher costs for refined products and retail natural gas and electric operations of $144 million and $120 million, respectively, partially offset by $156 million lower electric power services costs which reflects the designation of such costs as trading in 1999 (discussed above). These variances are associated with the corresponding changes in non-trading revenues discussed above.

Segment profit increased $78.0 million, to $105 million in 1999, due primarily to the $61 million higher natural gas trading margins, $34 million higher natural gas liquids net revenues, a $22.3 million gain on the sale of Volunteer Energy assets in 1999, $10 million higher refined product net revenues and the effect in 1998 of $14 million of asset impairments related to the decision to focus the retail natural gas and electric business from sales to small commercial and residential customers to large end users. These increases were partially offset by $40 million lower electric power services net revenues, $16 million higher selling, general and administrative expenses and $8 million higher retail propane operating expenses. The higher selling, general and administrative expenses reflect higher compensation levels associated with improved operating performance, growth in electric power trading operations, the Volunteer Energy acquisition in late 1998 and increased activities in the areas of human resources development, investor/media/customer relations and business development, partially offset by the effect in 1998 of a $17 million credit loss accrual.

Energy, Marketing & Trading's revenues and costs and expenses for 1999 included $140.5 million and $145.3 million, respectively, from the Volunteer Energy operations sold in 1999. In addition, Energy, Marketing & Trading sold its retail propane business, Thermogas Company, previously a subsidiary of MAPCO Inc., to Ferrellgas Partners L.P. on December 17, 1999 (see Note 7). The sale yielded an after-tax gain of $65.2 million, which is reported as an extraordinary gain. Retail propane revenues and costs and expenses were $244.1 million and $257.2 million, respectively, for 1999.

EXPLORATION & PRODUCTION'S revenues increased $50.8 million, or 37 percent, due primarily to $22 million from increased average natural gas sales prices, $20 million associated with increases in both company-owned production volumes and marketing volumes from the Williams Coal Seam Gas Royalty Trust (Royalty Trust) and royalty interest owners and $17 million from oil and gas properties acquired in April 1999. Partially offsetting was an $11 million decrease in the recognition of income previously deferred from a 1997 transaction which transferred certain nonoperating economic benefits to a third party. Company-owned production has increased due mainly to a drilling program initiated in the San Juan basin in 1998 and 1999 and the April 1999 acquisition.

Other expense -- net in 1999 includes a $14.7 million gain from the sale of certain gas producing properties which contributed $2 million to segment profit in 1999. Also included in other expense -- net in 1999 is a $7.7 million gain from the sale of certain other properties.

Segment profit increased $12.6 million, or 46 percent, due primarily to $22 million of gains from the sales of assets, an $8 million contribution from the April 1999 acquisition, $4 million higher profits from company-owned production and $4 million lower dry hole costs. Partially offsetting was $11 million decreased recognition of deferred income, a $9 million decrease in margins from the marketing of natural gas and $6 million higher nonproducing leasehold amortization.

MIDSTREAM GAS & LIQUIDS' revenues increased $158.1 million, or 18 percent, due primarily to $119 million higher natural gas liquids sales from processing activities reflecting $62 million from a 46 percent increase in volumes sold and $57 million from a 29 percent increase in average natural gas liquids sales prices. The increase in natural gas liquids sales volumes is a result of the improved liquids market conditions in 1999 and a new plant which became operational in 1999. In addition, revenues increased due to $17 million from higher average gathering rates, $16 million higher transportation revenues associated with increased shipments, the effect of unfavorable adjustments in 1998 of $14 million related to rates placed into effect in 1997 for Midstream's regulated gathering activities (offset in costs and operating expenses) and $11 million higher natural gas liquids storage revenues following the mid-1999 acquisition of two storage facilities. Partially

offsetting these increases were $20 million lower equity earnings including 1998 and 1999 reclassifications totaling $10 million for the Discovery pipeline project (offset in capitalized interest).

Cost and operating expenses increased $122.2 million, or 22 percent, due primarily to $58 million higher liquids fuel and replacement gas purchases, higher operating and maintenance expenses and the 1998 rate adjustments related to Midstream's regulated gathering activities.

Segment profit increased $5.1 million, or 2 percent, due primarily to $40 million from higher per-unit natural gas liquids margins and $7 million from the increase in natural gas liquids volumes sold reflecting more favorable market conditions. The rapidly rising crude oil prices during 1999 and flat-to-declining natural gas prices caused natural gas liquids margins to increase significantly. For each penny improvement in natural gas liquids margins in 1999, segment profit increased approximately $8 million to $9 million. In addition, transportation, gathering and storage revenues increased $16 million, $12 million and $11 million, respectively. Largely offsetting were higher operating and maintenance expenses, $17 million higher general and administrative expenses, $20 million lower equity earnings, $8 million of costs associated with cancelled pipeline construction projects and the effect of a 1998 gain of $6 million on settlement of product imbalances.

Midstream is in the process of reorganizing its operations including the consolidation in Tulsa of certain support functions currently located in Salt Lake City and Houston. In connection with this, Williams offered certain employees enhanced retirement benefits under an early retirement incentive program in the first quarter of 2000. In addition, severance, relocation and other exit costs will be incurred. Preliminary estimates indicate that this reorganization may result in total pre-tax charges to first-quarter 2000 operating results of approximately $15 million to $17 million. Midstream expects one-year cost savings to exceed these charges.

PETROLEUM SERVICES' revenues increased $495.1 million, or 20 percent, due primarily to $380 million higher refinery revenues (including $99 million higher intra-segment sales to the travel centers/convenience stores which are eliminated), $166 million higher travel center/convenience store sales, $74 million higher revenues from growth in fleet management and mobile computer technology operations, $26 million in revenues from a petrochemical plant acquired in March 1999 and $23 million in revenues from terminalling operations acquired in January and August 1999. Partially offsetting these increases was a $90 million decrease in pipeline construction revenues following substantial completion of the project. This refined products pipeline, in which Williams has a 31.5 percent ownership interest, is awaiting final approval of an environmental assessment and is expected to come on line in 2000. The $380 million increase in refinery revenues includes a $302 million increase from 23 percent higher average sales prices and a $73 million increase from 6 percent higher refined product volumes sold. The increase in refined product volumes sold follows refinery expansions and improvements in mid-1999 and late-1998 which increased capacity. The $166 million increase in travel center/convenience store sales reflects $79 million from a 16 percent increase in gasoline and diesel sales volumes, $52 million from an 8 cent per gallon increase in average gasoline and diesel sales prices and $35 million higher merchandise sales. Both the number of travel centers/convenience stores and average per-store sales in 1999 increased as compared to 1998.

Costs and operating expenses increased $484 million, or 21 percent, due primarily to $385 million higher refining costs, $156 million higher travel center/convenience store cost of sales (including $99 million higher intra-segment purchases from the refineries which are eliminated), $71 million higher costs from growth in the fleet management and mobile computer technology operations, $27 million higher travel center/convenience store operating costs, $14 million of costs from the petrochemical plant acquired in March 1999 and $13 million higher terminalling costs related primarily to the terminalling operations acquired in 1999. Partially offsetting these increases were $87 million lower pipeline construction costs related to the project previously discussed. The $385 million increase in refining costs reflects $303 million from higher crude supply costs and other related per-unit cost of sales, $59 million associated with increased volumes sold and $23 million higher operating costs at the refineries. The higher refinery operating costs are a result of increased maintenance activity and refinery expansions completed in 1999 and 1998. The $156 million increase in travel center/convenience store cost of sales reflects $71 million from increased gasoline and diesel sales volumes, $56 million from increased average gasoline and diesel purchase prices and $29 million higher merchandise cost of sales reflecting increased volumes.

Selling, general and administrative expenses increased $27.2 million, or 31 percent, due, in part, to increased media/customer relations activities, business development and the additional terminals and travel centers in 1999.

Segment profit increased $9.2 million, or 6 percent, due primarily to the effects of a $15.5 million accrual in 1998 for potential refunds to transportation customers following a court ruling requiring such refunds and the settlement in 1999 of this litigation for $6.5 million less than accrued. In addition, segment profit increased due to $14 million from increased refined product volumes sold, $12 million from activities at the petrochemical plant acquired in March 1999 and $10 million from increased terminalling activities following the 1999 acquisitions. Also contributing to increased segment profit were $7 million from higher gasoline and diesel sales volumes, $7 million higher gross profit from increased travel center/convenience store merchandise activity, $5 million of margins on product sales from transportation, $5 million of refinery-related storage fee revenue and the recovery of $4 million of environmental expenses previously incurred. Largely offsetting these increases were $27 million and $23 million of increased operating costs at the travel centers/convenience stores and the refineries, respectively, and $27 million higher selling, general and administrative expenses.

COMMUNICATIONS

NETWORK'S revenues increased $233.5 million, or 113 percent, due primarily to $147 million of business growth from data and switched voice services, $45 million increased revenue from dark fiber leases accounted for as sales-type leases on the newly constructed digital fiber-optic network, $23 million higher revenue from an Australian telecommunications operation acquired in August 1998 and $16 million higher consulting and outsourcing revenues.

Costs and operating expenses increased $275.4 million, or 154 percent, due primarily to $99 million higher off-net capacity costs associated with providing customer services prior to completion of the new network, $49 million higher operating and maintenance expenses on the newly completed portions of the network, $29 million higher construction costs associated with the dark fiber leases accounted for as sales-type leases, $28 million higher depreciation expense as portions of the new network were placed into service, $24 million higher local access connection costs, $20 million higher costs from the Australian telecommunications operation acquired in August 1998, $17 million higher costs of consulting and outsourcing services and $5 million of higher leasing costs for equipment location space in data centers.

Selling, general and administrative expenses increased $81.5 million, or 145 percent, due primarily to costs associated with adding resources and infrastructure required to increase and serve a growing customer base as more of the network is installed and lit, including $20 million of costs associated with the development of voice services in 1999, and $23 million higher costs from the Australian telecommunications operation acquired in August 1998.

Segment loss increased $125 million, from a $29.6 million loss in 1998 to a $154.6 million loss in 1999, due primarily to the $81.5 million increase in selling, general and administrative expenses, losses experienced from providing customer services off-net prior to completion of the new network and $28 million higher depreciation expense, slightly offset by $16 million of profit from dark fiber leases accounted for as sales-type leases.

As each phase of the ongoing construction of the planned 33,000 mile full-service wholesale communications network goes into service, revenues and costs are expected to increase. During 1999, 7,000 miles of new network were added increasing the network to about 26,000 miles at December 31, 1999. The remaining 7,000 miles are planned to come on line during 2000. As the network is completed, most of the current off-net traffic will move onto the network resulting in improved profitability. This business is expected to contribute an increasing percentage of consolidated revenues but is not expected to contribute significantly to segment profit until 2001. The February 8, 1999, announcement by Williams of a 20-year agreement with SBC Communications, under which Network will become the preferred provider of nationwide long-distance voice and data services for SBC Communications, will contribute to the expected network revenue increase in 2000. In addition, during late 1999 and early 2000 Communications announced agreements with several parties that will provide an aggregate $930 million of revenue over the next 25 years.

BROADBAND MEDIA'S revenues increased $1.6 million, or 1 percent, while segment loss decreased $15 million, or 38 percent, due primarily to improved margins and $9 million lower selling, general and administrative expenses. The lower selling, general and administrative expenses reflect the effects of facility consolidations.

SOLUTIONS' revenues increased $64.8 million, or 5 percent, due primarily to $26 million of revenues from a Mexican telecommunications company acquired in October 1998, $25 million higher sales from new systems and upgrades and $9 million of professional services revenues following another October 1998 acquisition.

Costs and operating expenses increased $48.1 million, or 5 percent, due primarily to an increase in cost of sales commensurate with the increase in revenues. Selling, general and administrative expenses increased $33.4 million, or 8 percent, due primarily to $26 million higher technological and infrastructure support costs largely associated with business integration issues, the implementation of new systems and processes and consulting services in support of sales efforts. Selling, general and administrative expenses also increased due to $12 million higher depreciation and amortization, an $11 million increase in the provision for uncollectible trade receivables reflecting unresolved billing and collection issues, $4 million of costs from the Mexican telecommunications company acquired in October 1998 and $3 million of expense associated with a Williams-wide incentive program. Partially offsetting these increases were the effect of a $6 million accrual in 1998 for modification of an employee benefit program associated with vesting of paid time off and $12 million of cost reductions in commissions, telephone and video conferencing, and office employee travel and entertainment expenses.

Segment loss increased $11.3 million, or 21 percent, due primarily to $33.4 million of higher selling, general and administrative expenses, partially offset by a $13 million increase in margins on ongoing operations, the effect in 1998 of $6 million of charges related to information systems cancellations and $4 million realized on the sale of rights to future cash flows from equipment lease renewals. Although Solutions' results are expected to improve next year, it is still expected to experience a segment loss in 2000.

STRATEGIC INVESTMENTS' revenues decreased $25.4 million, or 75 percent, due primarily to the $15 million effect of the July 1999 sale of the audio- and video-conferencing and closed-circuit video broadcasting businesses and $12 million higher equity losses from an investment in ATL-Algar Telecom Leste S.A. (ATL), a Brazilian telecommunications business which became operational in January 1999.

Costs and operating expenses decreased $15.5 million, or 37 percent, and selling, general and administrative expenses decreased $14.7 million, or 40 percent, due primarily to the effect of the July 1999 sale of the audio- and video-conferencing and closed-circuit video broadcasting businesses.

Other expense -- net in 1999 includes a $28.4 million loss relating to the sales of certain audio- and video-conferencing and closed-circuit video broadcasting businesses (see Note 5) and $5.5 million of asset impairment charges relating to management's decision to abandon the wireless remote monitoring, meter reading equipment and related services business. Other expense -- net in 1998 includes a $23.2 million write-down related to the abandonment of a venture involved in the technology and transmission of business information for news and educational purposes (see Note 5).

Segment loss decreased $5.5 million, from a $69.9 million loss in 1998 to a $64.4 million loss in 1999, due primarily to the effect of the $23.2 million asset write-down in 1998, a $16 million effect of businesses that were generating losses that have been sold or otherwise exited and $9.4 million of dividends in 1999 from international investment funds, largely offset by the $33.9 million of losses and asset impairment charges in 1999 and $12 million higher equity losses from ATL.

OTHER

OTHER revenues increased $46.2 million, or 68 percent, due primarily to $21 million higher Venezuelan gas compression revenues, $26 million of rental income from Gas Pipeline for office space (eliminated in consolidation) and $6 million of revenues for operating a Venezuelan crude oil terminal, partially offset by $10 million higher equity investment losses. The $21 million higher gas compression revenues reflect the effect of a high pressure unit which became operational in September 1998, partially offset by the effect of

operational problems experienced in early 1999. The $10 million higher equity investment losses resulted from increased interest expense experienced by another Brazilian communications company.

Segment profit increased $5.9 million, from $2.5 million in 1998 to $8.4 million in 1999, due primarily to a $9 million improvement in Venezuelan gas compression operations and the effect of $5.6 million of international investment fund write-downs in 1998, partially offset by $10 million higher equity investment losses.

CONSOLIDATED

GENERAL CORPORATE EXPENSES decreased $21.3 million, or 24 percent, due primarily to MAPCO merger-related costs of $29 million included in 1998 general corporate expenses. Interest accrued increased $152.9 million, or 30 percent, due primarily to the $142 million effect of higher borrowing levels including Communications' debt issuances and the July 1999 issuance of additional public debt by Williams. In addition, average interest rates were slightly higher than in 1998. These increases were slightly offset by a $26.2 million decrease in interest on rate refund liabilities including a $10.6 million favorable adjustment related to the reduction of certain rate refund liabilities in second-quarter 1999 (see Note 19). Interest capitalized increased $39.2 million, or 128 percent, due primarily to increased capital expenditures for the fiber-optic network and pipeline construction projects and reclassifications totaling $10 million related to Williams' equity investment in the Discovery pipeline project (offset in Midstream Gas & Liquids' segment profit), partially offset by lower capital expenditures for international investments. Investing income increased $42.9 million due primarily to higher interest income associated with the investment of proceeds from Communications' equity and debt offerings and $12 million of dividends in 1999 from international investment funds (including $9.4 million previously discussed within Communications' segment profit). Other income (expense) -- net is $15.8 million favorable as compared to 1998 due primarily to 1998 litigation loss accruals and other settlement adjustments totaling $11 million related to assets previously sold.

The $54 million, or 50 percent, increase in the provision for income taxes on continuing operations is the result of higher pre-tax income and a higher effective income tax rate in 1999. The effective income tax rate in 1999 exceeds the federal statutory rate due primarily to the effects of state income taxes, losses of foreign entities not deductible for U.S. tax purposes and the impact of goodwill not deductible for tax purposes related to assets sold during 1999 (see Note 5). The effective income tax rate in 1998 exceeds the federal statutory rate due primarily to the effects of state income taxes and the effects of non-deductible costs, including goodwill amortization.

The $65.2 million 1999 extraordinary gain results from the sale of Williams' retail propane business (see Note 7). The $4.8 million 1998 extraordinary loss results from the early extinguishment of debt (see Note 7).

The $5.6 million 1999 change in accounting principle relates to the adoption of Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" (see Note 1).

1998 vs. 1997

CONSOLIDATED OVERVIEW. Williams' revenues decreased $591 million, or 7 percent, due primarily to the $384 million impact in 1998 of reporting certain revenues net of costs within Energy Services (see Note 1) and lower petroleum products and natural gas liquids sales prices. Favorably affecting revenues were higher revenues from Communications' equipment sales and services activities and dark fiber lease revenues, higher power services revenues and increased petroleum products sales volumes.

Segment costs and expenses decreased $290 million, or 4 percent, due primarily to the $384 million impact in 1998 of reporting certain costs net in revenues within Energy Services (see Note 1) and lower purchase prices for petroleum products. Partially offsetting these decreases were higher costs and expenses within Communications, costs associated with increased petroleum products sales volumes, higher power services costs and $143 million of higher charges in 1998 as compared to 1997. The 1998 charges include $74 million related to contractual and regulatory issues, $37 million of asset impairments, $51 million of MAPCO merger-related expenses, and a $31 million accrual for modification of an employee benefit program

associated with vesting of paid time off. Included in 1997 are charges totaling $50 million for asset impairments.

Operating income decreased $296 million, or 29 percent, due primarily to a $103 million decrease at Energy Services, a $135 million decrease at Communications and the $51 million of MAPCO merger-related expenses. Energy Services' decrease reflects a decline in natural gas trading revenues, losses from retail natural gas and electric activities, lower per-unit liquids margins and a $15.5 million accrual for potential refunds, partially offset by increased electric power services activities. Communications' decrease reflects higher selling, general and administrative expenses, including costs associated with infrastructure growth and improvement, and losses experienced from providing customer services off-net prior to completion of the new network. Income from continuing operations before income taxes, extraordinary gain (loss) and change in accounting principle decreased $429 million, or 63 percent, due primarily to the lower operating income, $44 million higher net interest expense resulting from continued expansion and new projects, the effect of a $45 million gain in 1997 on the sale of an interest in a subsidiary and the effect of a $66 million gain in 1997 on the sale of assets.

GAS PIPELINE

GAS PIPELINE'S revenues increased $4.7 million due primarily to the $26 million impact of expansion projects placed into service in 1998 and late 1997, $10 million higher revenues related to new services and increased cost recovery, a 1998 adjustment of $11 million related to new rates placed into effect May 1, 1997, the 1998 reversal of a $7 million accrual for other regulatory issues initially recorded in 1997, the $10 million effect of unfavorable adjustments in 1997 to rate refund liabilities and demand charge reserves and $5 million of favorable adjustments to rate refund liabilities and demand charge reserves in 1998. These increases were substantially offset by $43 million lower reimbursable costs passed through to customers (offset in costs and operating expenses), the reversal in 1997 of a $12 million potential refund associated with the sale of working gas in a prior year, the $4 million effect of the favorable resolution of certain contractual issues in 1997 and a $3.5 million 1997 gain on the sale of system balancing gas.

Costs and operating expenses decreased $46 million, or 6 percent, due primarily to $37 million lower reimbursable costs passed through to customers and $15 million lower operation and maintenance expenses, partially offset by the effect of a $5.4 million settlement received in 1997 related to a prior rate proceeding and a $4 million accrual related to the modification of an employee benefit program associated with the vesting of paid time off.

Other expense -- net in 1998 includes a $58.4 million charge related to certain long-term gas supply contracts entered into in 1982. The charge represents an estimate, based on developments in 1998, of natural gas costs incurred in prior years that will not be recoverable from customers (see Note 19).

Segment profit decreased $4.3 million, or 1 percent, due primarily to the $58.4 million accrual for costs related to certain long-term gas supply contracts, $6 million higher depreciation related to expansions placed in service and the effects of certain 1997 transactions including the reversal of a $12 million potential refund associated with the sale of working gas in a prior year, a $4 million favorable resolution of certain contractual issues, the receipt of a $5.4 million settlement and a $3.5 million gain from the sale of system balancing gas. These decreases were substantially offset by the $26 million revenue effect of expansion projects placed into service in 1998 and late 1997, $10 million higher revenues related to new services and increased cost recovery, $15 million lower operation and maintenance expenses, the $14 million combined favorable effect of 1998 and 1997 rate refund liability adjustments, an adjustment of $11 million related to the 1998 settlement of new rates placed into effect May 1, 1997 and the effect of a $5 million accrual for gas purchase contract settlement costs in 1997.

ENERGY SERVICES

ENERGY MARKETING & TRADING'S revenues decreased $243.3 million, or 14 percent, due to a $13.2 million decrease in trading revenues and a $230.1 million decrease in non-trading revenues. The $13.2 million decrease in trading revenues is due primarily to $50 million lower revenues from natural gas origination, price-

risk management and physical trading, largely offset by $32 million higher electric power trading margins associated with business growth in this area. The $50 million decrease in natural gas trading reflects lower margins, the unfavorable market movement against the natural gas portfolio and the adverse market and supply conditions which resulted from Hurricane George in September 1998, partially offset by the $24 million favorable effect of certain contract settlements and terminations.

The $230.1 million decrease in non-trading revenues is due primarily to the $384 million effect in 1998 of reporting revenues on a net basis for certain natural gas liquids operations previously reported on a "gross" basis (see Note 1). In addition, retail propane revenues decreased $59 million due to the $35 million effect of lower volumes following unseasonably warm weather in 1998 as compared to 1997 and the $24 million effect of lower average propane sales prices. Partially offsetting these decreases were $211 million higher electric power services revenues associated with new power activity in southern California.

Costs and operating expenses associated with non-trading activities decreased $303.5 million, or 19 percent, due primarily to the $384 million impact in 1998 of reporting revenues on a net basis for certain natural gas liquids trading operations previously reported on a "gross" basis (see Note 1). In addition, retail propane cost of sales decreased $55 million due to the $21 million effect of lower volumes and the $34 million effect of lower average propane purchase costs. These decreases were partially offset by $156 million of costs related to new electric power activity in southern California.

Segment profit decreased $18.7 million, or 41 percent, due primarily to the $50 million decline in revenues from natural gas trading activities discussed above, $43 million of additional losses from retail natural gas and electric activities and the effect of a $6 million recovery in 1997 of an account previously written off as a bad debt. The $43 million of losses from retail natural gas and electric activities includes $17 million of credit losses and $14 million of asset impairments (included in other expense -- net). The $14 million asset impairment is associated with the company's decision to change focus from selling to small commercial and residential customers to large end users (see Note 5). The retail natural gas and electric losses also reflect costs incurred to penetrate new markets. Offsetting these decreases were $60 million of higher electric power services profits, $17 million lower retail propane operating expenses and $7 million higher natural gas liquids trading profits.

EXPLORATION & PRODUCTION'S revenues increased $9.2 million, or 7 percent, due primarily to the recognition of $22 million of additional deferred income resulting from a 1997 transaction that transferred certain nonoperating economic benefits to a third party and $8 million from a 14 percent increase in company-owned production, partially offset by the $25 million effect of lower average natural gas sales prices for company-owned production and for sale of volumes from the Royalty Trust and royalty interest owners.

Segment profit decreased $3.1 million, or 10 percent, due primarily to $13 million higher depreciation, depletion and amortization, $6 million higher nonproducing leasehold amortization, $2 million higher dry hole costs and $2 million of leasehold impairment costs, partially offset by the $22 million increased recognition of deferred income.

MIDSTREAM GAS & LIQUIDS' revenues decreased $158.7 million, or 15 percent, due primarily to $60 million lower natural gas liquids sales from processing activities reflecting a decline in average liquids sales prices, and the $44 million effect of the shutdown of the Canadian liquids marketing operations in late 1997. Revenues also declined due to $18 million lower natural gas liquids pipeline transportation revenues reflecting 3 percent lower shipments, the passthrough of $9 million lower operating costs to customers, adjustments of $14 million related to new rates placed into effect in 1997 for Midstream's regulated gathering activities (offset in costs and operating expenses) and the effect of an $8 million receipt in 1997 of business interruption insurance proceeds, slightly offset by $7 million higher gathering revenues and $8 million associated with a 4 percent increase in natural gas liquids sales volumes.

Costs and operating expenses decreased $107 million, or 16 percent, due primarily to the $50 million effect of the shutdown of the Canadian liquids marketing operations, $14 million of rate adjustments related to Midstream's regulated gathering activities, $9 million lower costs passed through to customers, $15 million lower fuel and replacement gas purchases, and lower natural gas liquids pipeline transportation costs.

Other expense -- net in 1998 includes a loss of approximately $9 million related to the retirement of certain assets and $6 million of unfavorable litigation loss provisions, partially offset by a $6 million gain from the settlement of product imbalances.

Segment profit decreased $56.6 million, or 20 percent, due primarily to $45 million of lower per-unit liquids margins, decreased pipeline transportation shipments, the $9 million loss related to retirement of certain assets and the effect of an $8 million business interruption insurance receipt in 1997, slightly offset by $7 million higher gathering revenues.

PETROLEUM SERVICES' revenues decreased $22.3 million, or 1 percent, due primarily to $243 million lower refinery revenues (including $28 million lower intra-segment sales to the travel centers/convenience stores which are eliminated) and $17 million lower product sales from transportation activities. These decreases were significantly offset by $107 million higher pipeline construction revenue, $54 million higher travel center/convenience store sales, and $37 million higher revenues from fleet management and mobile computer technology operations initiated in mid-1997. The $243 million decline in refining revenues reflects $415 million from lower average sales prices, partially offset by $172 million from a 12 percent increase in refined product volumes sold. The $54 million increase in travel center/convenience store sales is due primarily to the May 1997 EZ-Serve acquisition, additional travel centers and increased per-store merchandise sales. Increases of $101 million in gasoline and diesel sales volumes and $47 million higher merchandise sales were partially offset by a $94 million impact of lower average retail gasoline and diesel sales prices.

Costs and expenses increased $1.9 million due primarily to $102 million of pipeline construction costs, $46 million higher travel center/convenience store merchandise purchases and operating costs resulting from the EZ-Serve acquisition, additional travel centers and increased per-store sales, $41 million higher costs from fleet management and mobile computer technology operations, $33 million higher general and administrative expenses and a $15.5 million accrual for potential transportation rate refunds to customers (included in other expense -- net) (see Note 19). These increases were substantially offset by a $252 million decrease from refining operations and $15 million lower cost of product sales from transportation activities. The $252 million decrease from refining operations reflects a $405 million decrease due to lower average crude oil purchase prices, partially offset by a $146 million increase related to an increase in processed barrels sold and $7 million higher operating costs at the Memphis refinery. Travel center/convenience store gasoline and diesel cost of sales remained flat (including $28 million lower intra-segment purchases from the refineries which are eliminated) as a $91 million increase from higher sales volumes was offset by lower average purchase prices. The $33 million increase in general and administrative expenses is due, in part, to increased activities in human resources development, investor/media/customer relations and business development.

Segment profit decreased $24.2 million, or 13 percent, due primarily to the $15.5 million accrual for potential refunds to transportation customers, $7 million higher operating costs due to increased production levels at the Memphis refinery, $33 million higher general and administrative expenses and a $4.4 million accrual for modification of an employee benefit program associated with vesting of paid time off, partially offset by $15 million higher refinery gross margins, $6 million higher product transportation revenues, $7 million increased profits from travel center/convenience store operations and $5 million from pipeline construction activities.

COMMUNICATIONS

NETWORK'S revenues increased $163.1 million, from $43 million in 1997 to $206.1 million in 1998, due primarily to $64 million of revenue in 1998 from dark fiber leases accounted for as sales-type leases on the newly constructed digital fiber-optic network, $49 million of revenues from providing fiber services to new long-term customers, $27 million higher revenue following the transfer of fiber assets from Broadband Media in October 1997 and $11 million from an Australian telecommunications operation acquired in August 1998.

Costs and operating expenses increased $146.8 million from $32.1 million in 1997, due primarily to $38 million of construction costs associated with the dark fiber leases accounted for as sales-type leases, $55 million of leased capacity costs associated with providing customer services prior to completion of the new

network, $17 million higher operating and maintenance expenses and $11 million from the Australian telecommunications operation acquired in August 1998. Selling, general and administrative expenses increased $48.8 million due primarily to the expansion of the infrastructure to support the new national digital fiber-optic network, including $8 million of increased information systems costs, $8 million for a new national advertising campaign and $4 million of costs from the Australian telecommunications operation acquired in August 1998.

Segment profit decreased $32.9 million, from a $3.3 million segment profit in 1997 to a $29.6 million segment loss in 1998, due primarily to the cost of expanding the infrastructure in support of the network construction and losses experienced from providing customer services prior to completion of the new network, partially offset by $26 million of profit from dark fiber leases accounted for as sales-type leases.

BROADBAND MEDIA'S revenues decreased $.8 million, or 1 percent, while segment loss increased $6.5 million, or 20 percent, due primarily to lower margins.

SOLUTIONS' revenues increased $160.3 million, or 13 percent, due primarily to the April 30, 1997, combination of the Nortel customer premise equipment sales and services operations, which contributed an additional $196 million of revenue during the first four months of 1998. A $30 million increase in maintenance contract revenues was more than offset by $46 million lower new system sales and $31 million lower customer service orders due, in part, to competitive pressures.

Costs and operating expenses increased $116 million, or 13 percent, and selling, general and administrative expenses increased $138 million, or 53 percent, due primarily to the combination with Nortel. Included in the overall increase in selling, general and administrative expenses are $23 million of increased information systems costs associated with expansion and enhancement of the infrastructure and continued costs of maintaining multiple systems while common systems are being developed, $36 million higher selling costs including the effects of large increases in sales and support staff and higher sales commissions in anticipation of a higher revenue base than actually achieved, $12 million increased provision for uncollectible trade receivables, and a $6 million accrual for modification of an employee benefit program associated with vesting of paid time off.

Segment profit decreased $101.4 million, from a $47.3 million segment profit in 1997 to a $54.1 million segment loss in 1998, due primarily to the increase in selling, general and administrative costs as described above, $6 million related to information systems cancellations and $7 million of obsolete equipment write-downs, severance and contract loss accruals.

STRATEGIC INVESTMENTS' revenues decreased $19.6 million, or 37 percent, due primarily to the $14 million effect of the decision to exit the learning content business in November 1997 and equity losses of $15 million from investing activities in ATL, a Brazilian telecommunications business. This business is constructing a cellular phone network scheduled to be in operation during 1999. Partially offsetting these decreases were $9 million higher audio- and video-conferencing and business television revenues.

Costs and operating expenses remained the same in 1998 as $7 million of higher costs from audio- and video-conferencing and business television activities was offset by lower costs following the decision to exit the learning content business in November 1997. A $14.5 million, or 28 percent, decrease in selling, general and administrative expenses was also due to the decision to exit the learning content business.

Other expense -- net in 1998 includes a $23.2 million write-down related to the abandonment of a venture involved in the technology and transmission of business information for news and educational purposes (see Note 5). Other expense -- net in 1997 includes charges totaling $29 million related primarily to the decision and formulation of a plan to sell the learning content business (see Note 5). During 1998, a substantial portion of the learning content business was sold at its approximate carrying value.

Segment loss decreased $5.9 million, from a $75.8 million segment loss in 1997 to a $69.9 million segment loss in 1998, due primarily to the effect of $29 million of charges in 1997 and the favorable effect of

the decision to exit the learning content business, largely offset by the $23.2 million write-down in 1998 and $15 million of equity losses in 1998 from the Brazilian communications business.

OTHER

OTHER segment profit decreased $8.9 million, or 78 percent, due primarily to $5 million higher general and administrative expenses as compared to 1997 and $5.6 million of write-downs of international cost investments to market.

CONSOLIDATED

GENERAL CORPORATE EXPENSES decreased $5.9 million, or 6 percent, due primarily to expense savings realized following the MAPCO merger, largely offset by MAPCO merger-related costs of $29 million in 1998 compared to $10 million in 1997. Interest accrued increased $51.6 million, or 11 percent, due primarily to higher borrowing levels including the commercial paper program and the issuance of additional public debt, partially offset by the $52 million effect of lower average interest rates. The lower average interest rate reflects the fourth-quarter 1997 debt restructuring and lower rates on new 1998 borrowings as compared to previously outstanding borrowings. Interest capitalized increased $7.3 million, or 31 percent, due primarily to increased capital expenditures for the fiber-optic network, the Venezuelan gas injection plant and international investment activities. Investing income increased $13.2 million to $25.8 million due primarily to higher interest income from advances to affiliates and long-term notes receivable. For information concerning the $44.5 million gain on sale of interest in subsidiary in 1997, see Note 2. The $66 million gain on sales of assets in 1997 results from the sale of Williams' interest in the liquids and condensate reserves in the West Panhandle field of Texas (see Note 5). Minority interest in (income) loss of consolidated subsidiaries in 1998 is $27.8 million favorable as compared to 1997 due primarily to losses experienced by Williams Communications Solutions, LLC which has a 30 percent interest held by minority shareholders. Other income (expense) -- net is $19.6 million unfavorable as compared to 1997 due primarily to 1998 litigation accruals and other settlement adjustments totaling $11 million related to assets previously sold, and the impact of a 1997 gain of $4 million on the termination of interest-rate swap agreements.

The $133.5 million, or 55 percent, decrease in the provision for income taxes on continuing operations is primarily a result of lower pre-tax income, partially offset by a higher effective income tax rate in 1998. The effective income tax rate in 1998 exceeds the federal statutory rate due primarily to the effects of state income taxes and the effects of non-deductible costs, including goodwill amortization. The effective tax rate in 1997 exceeds the federal statutory rate due primarily to the effects of state income taxes, substantially offset by the effect of the non-taxable gain recognized in 1997 (see Note 2) and income tax credits from coal-seam gas production.

The 1998 and 1997 losses on discontinued operations are attributable to loss provisions for contractual obligations related to the sale of the net assets of the MAPCO coal business in 1996 (see Note 3).

The 1998 and 1997 extraordinary losses result from the early extinguishment of debt (see Note 7).

FINANCIAL CONDITION AND LIQUIDITY

Liquidity

Williams considers its liquidity to come from both internal and external sources. Certain of those sources are available for all areas within Williams while others can only be utilized by Communications. Williams' unrestricted sources of liquidity, which can be utilized without limitation under existing loan covenants, consist primarily of the following:

- Available cash-equivalent investments of $494 million at December 31, 1999 as compared to $377 million at December 31, 1998.

- $475 million available under Williams' $1 billion bank-credit facility at December 31, 1999 as compared to $306 million at December 31, 1998.

- $154 million available under Williams' $1.4 billion commercial paper program at December 31, 1999 as compared to $55 million at December 31, 1998. The commercial paper program was increased from $1 billion to $1.4 billion in January 1999 and is backed by a short-term bank-credit facility, which was also increased to $1.4 billion in January 1999.

- Cash generated from operations.

- Short-term uncommitted bank lines can also be used in managing liquidity.

Williams' sources of liquidity restricted to use by Communications consist primarily of the following:

- Available cash-equivalent investments and short-term investments totaling $1.9 billion.

- Communications' $1.05 billion bank-credit facility under which no borrowings are outstanding at December 31, 1999.

In addition, there are outstanding registration statements filed with the Securities and Exchange Commission for Williams and Northwest Pipeline, Texas Gas Transmission and Transcontinental Gas Pipe Line (each a wholly owned subsidiary of Williams). At March 1, 2000, approximately $755 million of shelf availability remains under these outstanding registration statements and may be used to issue a variety of debt or equity securities. Interest rates and market conditions will affect amounts borrowed, if any, under these arrangements. Williams believes any additional financing arrangements, if required, can be obtained on reasonable terms.

Terms of certain borrowing agreements limit transfer of funds to Williams from its subsidiaries, including Communications as described above. The restrictions have not impeded, nor are they expected to impede, Williams' ability to meet its cash requirements in the future.

During 2000, Williams expects to fund capital and investment expenditures, debt payments and working-capital requirements through (1) cash generated from operations, (2) the use of the available portion of Williams' $1 billion bank-credit facility, (3) commercial paper, (4) short-term uncommitted bank lines, (5) private borrowings and/or (6) debt or equity public offerings. In addition, Communications' capital and investment expenditures, debt payments and working-capital requirements are also expected to be funded with the remaining proceeds from its 1999 initial equity and high-yield debt offerings and its $1.05 billion bank-credit facility.

Operating Activities

Cash provided by continuing operating activities was: 1999 -- $1.5 billion; 1998 -- $678 million; 1997 -- $988 million. The increases in receivables and accounts payable of $784 million and $892 million, respectively, reflect increased electric power trading and other activity at Energy Marketing & Trading. The $134 million increase in inventories includes increases in the refined product and crude oil inventories at Energy Marketing & Trading including the effect of the petrochemical plant acquisition. The $288 million increase in accrued liabilities is due primarily to higher network construction cost accruals of $264 million and higher accrued payroll, accrued interest, income taxes payable and Communications' deferred revenue, substantially offset by the payment in first-quarter 1999 of $100 million in connection with the assignment of Williams' obligations under a gas purchase contract to an unaffiliated third party (see Note 19), the payments in 1999 of $156 million for rate refunds to natural gas customers and the second-quarter 1999 reductions to rate refund liabilities (see Note 19). In addition, during 1999 Williams received net federal income tax refunds totaling $387 million (see Note 6).

Financing Activities

Net cash provided by financing activities was: 1999 -- $4.4 billion; 1998 -- $1.8 billion; and 1997 -- $424 million. Long-term debt proceeds, net of principal payments, were $2.7 billion, $1.8 billion and $18 million during 1999, 1998 and 1997, respectively. Notes payable proceeds, net of notes payable payments, were $210 million and $622 million during 1999 and 1997, respectively. Notes payable payments, net of notes

payable proceeds, were $139 million during 1998. The increase in net new borrowings during 1999, 1998 and 1997 reflects borrowings to fund capital expenditures, investments and acquisition of businesses.

In October 1999, Williams Communications Group, Inc. (WCG) completed an initial public equity offering, private equity offerings and public debt offerings which yielded total net proceeds of approximately $3.5 billion. The initial public equity offering yielded net proceeds of approximately $738 million (see Note 15). Additional shares of common stock were privately sold in concurrent investments by SBC Communications Inc., Intel Corporation, and Telefonos de Mexico for proceeds of $738.5 million. These transactions resulted in a reduction of Williams' ownership interest in WCG from 100 percent to 85.3 percent. Concurrent with these equity transactions, WCG issued high-yield public debt of approximately $2 billion. Proceeds from these equity and debt transactions were used to repay Communications' 1999 borrowings under an interim short-term bank-credit facility and the $1.05 billion bank-credit agreement, and will also be used to fund future Communications' operating losses, continued construction of Communications' national fiber-optic network (scheduled for completion by the end of 2000) and other expansion opportunities.

The proceeds from issuance of Williams common stock in 1999, 1998 and 1997 are primarily from exercise of stock options under the stock plans.

During 1999, Williams received proceeds of $175 million from the sale of Williams obligated mandatorily redeemable preferred securities. During 1998, Williams received proceeds totaling $335 million from the sale of limited partnership and limited-liability company member minority interests to outside investors (see Note 14).

During the first quarter of 1998, Williams completed the restructuring of a portion of its debt portfolio that was initiated in September 1997. As of December 31, 1997, Williams had paid approximately $1.4 billion to redeem approximately $1.3 billion of debt with stated interest rates in excess of 8.8 percent, resulting in an extraordinary loss of $79.1 million. During first-quarter 1998, Williams paid an additional $54.4 million to redeem higher interest rate debt for a $4.8 million extraordinary loss. The restructuring was completed with the fourth-quarter 1997 and first-quarter 1998 issuance of approximately $1.5 billion of debentures and notes with interest rates ranging from 5.91 percent to 6.625 percent and maturities from 2000 to 2008.

Long-term debt at December 31, 1999 was $9.2 billion, compared with $6.4 billion at December 31, 1998 and $5.4 billion at December 31, 1997. At December 31, 1999 and 1997, $404 million and $696 million, respectively, of current debt obligations were classified as non-current obligations based on Williams' intent and ability to refinance on a long-term basis. The 1999 increase in long-term debt is due primarily to $2 billion in public debt issued by Communications in October 1999 and the issuance of $700 million of public debt by Williams in July 1999. The long-term debt to debt-plus-equity ratio was 62.3 percent at December 31, 1999, compared to 59.9 percent and 55.8 percent at December 31, 1998 and 1997, respectively. If short-term notes payable and long-term debt due within one year are included in the calculations, these ratios would be 65.9 percent, 64.7 percent and 59.1, respectively.

Investing Activities

Net cash used by investing activities was: 1999 -- $5.3 billion; 1998 -- $2.1 billion; and 1997 -- $1.5 billion. Capital expenditures of Communications, primarily for the construction of the fiber-optic network, were $1.7 billion in 1999, $304 million in 1998 and $276 million in 1997. Capital expenditures of Energy Services, primarily to expand and modernize gathering and processing facilities and refineries, were $1.2 billion in 1999, $707 million in 1998 and $469 million in 1997. Capital expenditures of Gas Pipeline, primarily to expand and modernize systems, were $360 million in 1999, $472 million in 1998 and $419 million in 1997. Budgeted capital expenditures and investments for all business units for 2000 are estimated to be approximately $4 billion, including the fiber-optic network construction ($2 billion), expansion and modernization of pipeline systems, gathering and processing facilities, and refineries, international investment activities and building construction.

During first-quarter 1999, Williams purchased a company with a petrochemical plant and natural gas liquids transportation, storage and other facilities for $163 million in cash. Also during 1999, Williams made

various cash investments and advances totaling $696 million including $265 million to increase its investment in ATL (a Brazilian telecommunications business), a $75 million equity investment in and a $75 million loan to AB Mazeikiu Nafta, Lithuania's national oil company, $78 million in various natural gas and petroleum products pipeline joint ventures, and other joint ventures and investments. In addition, Williams made $139 million of investments in the Alliance natural gas pipeline and processing plant during 1999 of which $93.5 million was financed with a note payable. In December 1999, Williams sold its retail propane business to Ferrellgas Partners L.P. (Ferrellgas) for $268.7 million in cash and $175 million in senior common units of Ferrellgas. Subsequent to December 31, 1999, Williams sold a portion of its investment in ATL for aggregate proceeds of $148 million.

During 1998, Williams made a $100 million advance to and a $150 million investment in another telecommunications business in Brazil. In addition, during 1998 Williams made an $85 million investment in a Texas refined petroleum products pipeline joint venture.

On April 30, 1997, Williams and Northern Telecom (Nortel) combined their customer-premise equipment sales and services operations into a limited liability company, Williams Communications Solutions, LLC. In addition, Williams paid $68 million to Nortel. See Note 2 for additional information. During 1997, Williams also purchased a 20 percent interest in a foreign telecommunications business for $65 million in cash, made a $59 million cash investment in the 50 percent owned Discovery pipeline project and received proceeds of $66 million from the sale of interests in the West Panhandle field.

Other Commitments

Energy Marketing & Trading has entered into certain contracts giving Williams the right to receive fuel conversion and certain other services for purposes of generating electricity. At December 31, 1999, annual estimated committed payments under these contracts range from $20 million to $383 million, resulting in total committed payments over the next 23 years of approximately $7 billion.

Williams has also entered into an agreement giving Williams a 25 year right to use a portion of a third party's wireless local capacity. Williams will pay a total of $400 million over four years for this right. As of December 31, 1999, Williams has paid approximately $172 million.

New Accounting Standards

See Note 1 for a discussion of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities," Emerging Issues Task Force Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities," Financial Accounting Standards Board (FASB) Interpretation No. 43, "Real Estate Sales, an Interpretation of FASB Statement No. 66," and Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements."

Effects of Inflation

Williams' cost increases in recent years have benefited from relatively low inflation rates during that time. Approximately 44 percent of Williams' property, plant and equipment is at Gas Pipeline, approximately 40 percent is at Energy Services and approximately 13 percent is at Communications. Approximately 84 percent of Gas Pipeline's property, plant and equipment has been acquired or constructed since 1995, a period of relatively low inflation. Gas Pipeline is subject to regulation, which limits recovery to historical cost. While amounts in excess of historical cost are not recoverable under current FERC practices, Williams believes it will be allowed to recover and earn a return based on increased actual cost incurred to replace existing assets. Cost-based regulation along with competition and other market factors may limit the ability to recover such increased costs. Within Energy Services, operating costs are influenced to a greater extent by specific price changes in oil and gas and related commodities than by changes in general inflation. Crude, refined product, natural gas and natural gas liquids prices are particularly sensitive to OPEC production levels and/or the market perceptions concerning the supply and demand balance in the near future. See Market Risk Disclosures on page 36 for additional information concerning the impact of specific price changes. Substantially all of the Communications' property, plant and equipment is for the recent fiber-optic network

construction. The activities of Communications have historically not been significantly affected by the effects of inflation.

Environmental

Williams is a participant in certain environmental activities in various stages involving assessment studies, cleanup operations and/or remedial processes. The sites, some of which are not currently owned by Williams (see Note 19), are being monitored by Williams, other potentially responsible parties, the U.S. Environmental Protection Agency (EPA), or other governmental authorities in a coordinated effort. In addition, Williams maintains an active monitoring program for its continued remediation and cleanup of certain sites connected with its refined products pipeline activities. Williams has both joint and several liability in some of these activities and sole responsibility in others. Current estimates of the most likely costs of such cleanup activities, after payments by other parties, are approximately $93 million, all of which is accrued at December 31, 1999. Williams expects to seek recovery of approximately $37 million of the accrued costs through future natural gas transmission rates and approximately $19 million of accrued costs from states in accordance with laws permitting reimbursement of certain expenses associated with underground storage tank containment problems and repairs. Williams will fund these costs from operations and/or available bank-credit facilities. The actual costs incurred will depend on the final amount, type and extent of contamination discovered at these sites, the final cleanup standards mandated by the EPA or other governmental authorities, and other factors.

Williams is subject to the federal Clean Air Act and to the federal Clean Air Act Amendments of 1990 which require the EPA to issue new regulations. In September 1998, the EPA promulgated new rules designed to mitigate the migration of ground-level ozone in certain states. Williams estimates that capital expenditures necessary to install emission control devices over the next five years to comply with these new rules will be between $248 million and $293 million. The actual costs incurred will depend on the final implementation plans developed by each state to comply with these regulations. In December 1999, new standards promulgated by the EPA for tailpipe emissions and the content of sulfur in gasoline were announced. Williams estimates that capital expenditures necessary to bring its two refineries into compliance over the next six years will be approximately $122 million. The actual costs incurred will depend on the final implementation plans.

Transcontinental Gas Pipe Line (Transco) received a letter stating that the U.S. Department of Justice (DOJ), at the request of the U.S. Environmental Protection Agency, intends to file a civil action against Transco arising from its waste management practices at Transco's compressor stations and metering stations in eleven states from Texas to New Jersey. DOJ stated in the letter that its complaint will seek civil penalties and injunctive relief under federal environmental laws. DOJ and Transco are discussing a settlement. While no specific amount was proposed, DOJ stated that any settlement must include an appropriate civil penalty for the alleged violations. Transco cannot reasonably estimate the amount of its potential liability, if any, at this time. However, Transco believes it has substantially addressed environmental concerns on its system through ongoing voluntary remediation and management programs.

Williams Field Services (WFS), an Energy Services subsidiary, received a Notice of Violation (NOV) from EPA in February 2000. WFS received a contemporaneous letter from DOJ indicating that DOJ will also be involved in the matter. The NOV alleged violations of the Clean Air Act at a gas processing plant. WFS intends to defend this matter, but cannot reasonably estimate the amount of potential liability, if any, at this time. EPA, DOJ, and WFS have scheduled settlement negotiation meetings beginning in March 2000.

Year 2000 Compliance

Williams encountered only minor problems associated with the date change from 1999 to 2000, and experienced no business disruptions. The total cost of its enterprise-wide project to prepare for the year 2000 date change was $47 million. Williams believes that limited and insignificant continued exposure to year 2000 complications remains.

Williams initiated its enterprise-wide project in 1997 to address the year 2000 compliance issue for both traditional information technology areas and non-traditional areas, including embedded technology that is prevalent throughout the company. This project focused on all technology hardware and software, external interfaces with customers and suppliers, operations process control, automation and instrumentation systems, and facility items. The phases of the project were awareness, inventory and assessment, renovation and replacement, testing and validation and contingency planning. During the inventory and assessment phase, all systems with possible year 2000 implications were inventoried and classified into five categories: 1) highest, business critical, 2) high, compliance necessary within a short period of time following January 1, 2000, 3) medium, compliance necessary within 30 days from January 1, 2000, 4) low, compliance desirable but not required, and 5) unnecessary. Categories 1 through 3 were designated as critical and were the major focus of this project. In 1998, Williams initiated a formal communications process with other companies with which it conducts business to determine the extent to which those companies were addressing year 2000 compliance. Williams has also worked directly with key business partners to reduce the risk of a break in service or supply and with non-compliant companies to mitigate any material adverse effect on Williams. Significant focus on the contingency plan phase of the project took place in 1999. Contingency plans were developed for critical business processes, critical business partners, suppliers and system replacements that experience significant delays.

Renovation/replacement and testing/validation of critical systems was completed by December 31, 1999. Over the December 31, 1999 to January 4, 2000 weekend, an extensive system monitoring plan was in place with regular reporting of results.

Williams utilized both internal resources (consisting of a core group of 238 people) and external contractors (at a cost of approximately $11.5 million) to complete the year 2000 compliance project. Costs incurred for new software and hardware purchases were capitalized and other costs were expensed as incurred. The $47 million total cost of the enterprise-wide project, including any accelerated system replacements, was or is expected to be spent as follows:

- Prior to 1998 and during the first quarter of 1998, Williams was conducting the project awareness and inventory/assessment phases of the project and incurred costs totaling $3 million.

- During the second quarter of 1998, $2 million was spent on the renovation/replacement and testing/ validation phases and completion of the inventory/assessment phase.

- The third and fourth quarters of 1998 focused on the renovation/replacement and testing/validation phases, and $10 million was incurred.

- During the first quarter of 1999, renovation/replacement and testing/validation continued, contingency planning began, and $9 million was incurred.

- During the second quarter of 1999, the primary focus shifted to testing/validation and contingency planning, and $10 million was spent.

- The primary focus during third-quarter 1999 was contingency planning and final testing, and $8 million was incurred.

- The fourth quarter of 1999 focused mainly on contingency planning and final testing, and $4 million was spent.

- Approximately $1 million is estimated to be spent during the first two quarters of 2000 for monitoring and minor problem resolution.

Of the $46 million incurred to date, approximately $41 million has been expensed and approximately $5 million has been capitalized. The $1 million of future costs for monitoring and problem resolution will be expensed. This estimate does not include Williams' potential share of year 2000 costs that were incurred by partnerships and joint ventures in which the company participates but is not the operator. The costs of previously planned system replacements are not considered to be year 2000 costs and are, therefore, excluded from the amounts discussed above.

The preceding discussion contains forward-looking statements including, without limitation, statements relating to the company's expectations, intentions, and adequate resources, that are made pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Readers are cautioned that such forward-looking statements contained in the year 2000 update are based on certain assumptions which may vary from actual results. Specifically, management's assumptions about the final impact on the company and the total costs to the company of the year 2000 compliance issue are based upon the assumption that there will not be a significant future impact resulting from, for example, problems caused by customers or suppliers that have not yet been fully recognized, or problems with billing, payroll, or financial closing at the quarters or year end. However, there can be no guarantee that these assumptions are correct.

ITEM 7a. MARKET RISK DISCLOSURES

INTEREST RATE RISK

Williams' interest rate risk exposure is related primarily to its short-term investments, investment in Ferrellgas Partners L.P. senior common units, debt portfolio and Williams obligated mandatorily redeemable preferred securities of Trust.

Short-term investments consist primarily of money market instruments, short-term debt securities, such as commercial paper, asset-backed and corporate bonds, and a mutual fund investing in short-term debt securities, which are managed by financial institutions. Williams' investing income is subject to interest rate risk resulting from potential future fluctuations in interest rates on comparable investment securities. To mitigate the impact of fluctuations in interest rates, Williams instructs the managing financial institutions to invest only in highly liquid instruments with short-term maturity dates. These investments were purchased with a portion of the proceeds from Communications' initial equity and high-yield debt offerings in October 1999.

Williams' interest rate risk exposure resulting from its debt portfolio is influenced by short-term rates, primarily LIBOR-based borrowings from commercial banks and the issuance of commercial paper, and long-term U.S. Treasury rates. To mitigate the impact of fluctuations in interest rates, Williams targets to maintain a significant portion of its debt portfolio in fixed rate debt. Williams also utilizes interest-rate swaps to change the ratio of its fixed and variable rate debt portfolio based on management's assessment of future interest rates, volatility of the yield curve and Williams' ability to access the capital markets in a timely manner. Williams periodically enters into interest-rate forward contracts to establish an effective borrowing rate for anticipated long-term debt issuances. The maturity of Williams' long-term debt portfolio is partially influenced by the life of its operating assets.

At December 31, 1999 and 1998, the amount of Williams' fixed and variable rate debt was at targeted levels. Williams has traditionally maintained an investment grade credit rating as one aspect of managing its interest rate risk. In order to fund its 2000 capital expenditure plan, Williams will need to access various sources of liquidity, which will likely include traditional borrowing and leasing markets. In addition, Communications will utilize the remaining proceeds from its initial equity and high-yield debt offerings and traditional bank borrowings to fund its 2000 capital expenditure plan.

The following tables provide information as of December 31, 1999 and 1998, about Williams' interest rate risk sensitive instruments. For short-term investments, investment in Ferrellgas Partners L.P. senior common units, notes payable, long-term debt and Williams obligated mandatorily redeemable preferred securities of Trust, the table presents principal cash flows and weighted-average interest rates by expected maturity dates. For interest-rate swaps and interest-rate forward contracts, the table presents notional amounts and weighted-average interest rates by contractual maturity dates. Notional amounts are used to calculate the contractual cash flows to be exchanged under the interest-rate swaps and the settlement amounts under the interest-rate forward contracts.

	2000	2001	2002	2003	2004	THEREAFTER	TOTAL	FAIR VALUE DECEMBER 31, 1999
				(DOLLARS IN MILLIONS)				
Assets:								
Short-term investments........	$1,435	$ --	$ --	$ --	$ --	$ --	$1,435	$1,435
Fixed rate....................	5.8%							
Investment-Ferrellgas Partners L.P. senior common units....	$ --	$ --	$ 176	$ --	$ --	$ --	$ 176	$ 176
Fixed rate....................	10.0%	10.0%	10.0%					
Liabilities:								
Notes payable.................	$1,379	$ --	$ --	$ --	$ --	$ --	$1,379	$1,379
Interest rate.................	6.4%							
Long-term debt, including current portion:								
Fixed rate..................	$ 194	$1,401	$1,003	$280	$350	$5,223	$8,451	$8,369
Interest rate...............	7.9%	8.1%	8.3%	8.5%	8.6%	8.3%		
Variable rate...............	$ 2	$ 101	$ 677	$ --	$200	$ --	$ 980	$ 980
Interest rate(1)								
Williams obligated mandatorily redeemable preferred securities of Trust.........................	$ --	$ --	$ 176	$ --	$ --	$ --	$ 176	$ 176
Fixed rate....................	7.9%	7.9%	7.9%					
Interest-rate swaps:								
Pay variable/receive fixed....	$ 47	$ 461	$ 240	$ --	$200	$ 750	$1,698	$ (27)
Pay rate(2)								
Receive rate..................	6.7%	6.7%	7.2%	7.2%	7.2%	7.5%		
Pay fixed/receive variable(3).................	$ 47	$ 53	$ 59	$ 65	$ 72	$ 212	$ 508	$ (21)
Pay rate......................	7.8%	7.8%	8.0%	8.0%	8.0%	8.0%		
Receive rate(4)								

	1999	2000	2001	2002	2003	THEREAFTER	TOTAL	FAIR VALUE DECEMBER 31, 1998
Liabilities:								
Notes payable	$1,053	$ --	$ --	$ --	$ --	$ --	$1,053	$1,053
Interest rate	5.9%							
Long-term debt, including current portion:								
Fixed rate	$ 258	$461	$1,080	$994	$268	$2,615	$5,676	$5,815
Interest rate	6.9%	6.9%	6.9%	7.0%	7.1%	7.5%		
Variable rate	$ 132	$102	$ 2	$845	$ --	$ --	$1,081	$1,081
Interest rate(1)								
Interest-rate swaps:								
Pay variable/receive fixed	$ 42	$ 47	$ 461	$240	$ --	$ 450	$1,240	$ 21
Pay rate(2)								
Receive rate	6.3%	6.3%	6.3%	6.8%	6.8%	6.4%		
Pay fixed/receive variable(3)	$ 172	$ 47	$ 53	$ 59	$ 65	$ 284	$ 680	$ (67)
Pay rate	7.8%	7.8%	7.8%	8.0%	8.0%	8.0%		
Receive rate(4)								
Interest-rate forward contracts purchased related to anticipated long-term debt issuances(5)	$ 50	$ --	$ --	$ --	$ --	$ --	$ 50	$ --

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(1) LIBOR plus .60 percent through 2002, LIBOR plus .35 percent thereafter for 1999 and LIBOR plus .30 percent for 1998.

(2) LIBOR, except $250 million notional amount maturing after 2003 is at LIBOR less 1.04 percent and $240 million notional amount maturing in 2002 is at LIBOR plus .26 percent.

(3) Counterparties have an option to cancel all outstanding swaps in 2001.

(4) LIBOR.

(5) Average lock in rate of 4.8 percent referenced to underlying Treasury securities having a weighted-average maturity of 10 years.

COMMODITY PRICE RISK

Energy Marketing & Trading has trading operations that incur commodity price risk as a consequence of providing price-risk management services to third-party customers. The trading operations have commodity price risk exposure associated with the crude oil, natural gas, refined products, natural gas liquids and electricity energy markets in the United States and the natural gas markets in Canada. The trading operations enter into energy contracts which include forward contracts, futures contracts, option contracts, swap agreements, commodity inventories and short- and long-term purchase and sale commitments which involve the physical delivery of an energy commodity. These energy contracts are valued at fair value and unrealized gains and losses from changes in fair value are recognized in income. The trading operations are subject to risk from changes in energy commodity market prices, the portfolio position of its financial instruments and physical commitments, the liquidity of the market in which the contract is transacted, changes in interest rates and credit risk. Energy Marketing & Trading continues to manage market risk on a portfolio basis subject to the parameters established in its trading policy. A risk control group, independent of the trading operations, monitors compliance with the established trading policy and measures the risk associated with the trading portfolio.

Energy Marketing & Trading measures the market risk in its trading portfolio on a daily basis utilizing a value at risk methodology to estimate the potential one day loss from adverse changes in the fair value of its trading operations. At December 31, 1999 and 1998, the value at risk for the trading operations was $9 million and $8 million, respectively. The change in the value at risk between 1999 and 1998 reflects that the market

risk of the trading portfolio has changed because of changes in the commodity product composition of the portfolio, increases in the size of the portfolio and changes in market prices. As supplemental quantitative information to further understand the general risk levels of the trading portfolio, the average of the actual monthly changes in the fair value of the trading portfolio for 1999 was an increase of $4 million. Value at risk requires a number of key assumptions and is not necessarily representative of actual losses in fair value that could be incurred from the trading portfolio. Energy Marketing & Trading's value at risk model includes all financial instruments and physical positions and commitments in its trading portfolio and assumes that as a result of changes in commodity prices, there is a 97.5 percent probability that the one day loss in the fair value of the trading portfolio will not exceed the value at risk. The value at risk model uses historical simulation to estimate hypothetical movements in future market prices assuming normal market conditions based upon historical market prices. Value at risk does not consider that changing our trading portfolio in response to market conditions could affect market prices and could take longer to execute than the one-day holding period assumed in the value at risk model.

FOREIGN CURRENCY RISK

Williams has international investments that could affect the financial results if the investments incur a permanent decline in value as a result of changes in foreign currency exchange rates and the economic conditions in foreign countries.

International investments accounted for under the cost method totaled $501 million and $247 million at December 31, 1999 and 1998, respectively. The fair value of these investments is deemed to approximate their carrying amount as the investments are primarily in non-publicly traded companies for which it is not practicable to estimate the fair value of these investments. Williams continues to believe that it can realize the carrying value of these investments considering the status of the operations of the companies underlying these investments. International cost investments include preferred stock interests in certain Brazilian ventures totaling $370 million and $152 million at December 31, 1999 and 1998, respectively. During 1999, the Brazilian economy experienced significant volatility resulting in a 33 percent reduction in the value of the Brazilian real against the U.S. dollar during the period December 31, 1998 to December 31, 1999. An additional 20 percent change in the value of the Brazilian real against the U.S. dollar could result in an approximate $74 million change in the fair value of these investments. This analysis assumes a direct correlation between the fluctuation of the Brazilian real and the value of the investments at December 31, 1999. The ultimate duration and severity of the conditions in Brazil remain uncertain, as does the long-term impact on interests in the ventures. Of the remaining international investments accounted for under the cost method at December 31, 1999 and 1998, approximately 56 percent and 73 percent, respectively, of these international investments were in Asian countries and approximately 44 percent and 27 percent, respectively, were in South American countries. If a 20 percent change occurred in the value of the underlying currencies of these investments against the U.S. dollar, the fair value of these investments at December 31, 1999 could change by approximately $26 million assuming a direct correlation between the currency fluctuation and the value of the investments.

The net assets of foreign operations which are consolidated are located primarily in Australia and Canada and approximate 2 percent and 1 percent of Williams total net assets at December 31, 1999 and 1998, respectively. These foreign operations, whose functional currency is the local currency, do not have significant transactions or financial instruments denominated in other currencies. However, these investments do have the potential to impact Williams' financial position, due to fluctuations in these local currencies arising from the process of re-measuring the local functional currency into the U.S. dollar. As an example, a 20 percent change in the respective functional currencies against the U.S. dollar could have changed stockholders' equity by approximately $23 million at December 31, 1999.

Williams historically has not utilized derivatives or other financial instruments to hedge the risk associated with the movement in foreign currencies. However, Williams evaluates currency fluctuations and will consider the use of derivative financial instruments or employment of other investment alternatives if cash flows or investment returns so warrant.

EQUITY PRICE RISK

Equity price risk primarily arises from investments in publicly traded telecommunications-related companies. These investments are carried at fair value and approximate one percent of Williams' total assets at December 31, 1999. These investments do have the potential to impact Williams' financial position due to movements in the price of these equity securities. Williams historically has not utilized derivatives or other financial instruments to hedge the risk associated with the movement in the price of these equity securities. It is reasonably possible that the prices of the equity securities in Williams' marketable equity securities portfolio could experience a 30 percent increase or decrease in the near term. Assuming a 30 percent increase or decrease in prices, the value of Williams' marketable equity securities portfolio at December 31, 1999, which is included in investments in the Consolidated Balance Sheet, would increase or decrease by approximately $86 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT AUDITORS

To the Stockholders of The Williams Companies, Inc.

We have audited the accompanying consolidated balance sheet of The Williams Companies, Inc. as of December 31, 1999 and 1998, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. Our audits also included the financial statement schedules listed in the Index at Item 14(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits. We did not audit the financial statements and schedules of MAPCO Inc., a wholly owned subsidiary (see Note 2), which statements reflect net income constituting approximately 26% of the related consolidated financial statement total for the year ended December 31, 1997. Those statements and schedules were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for MAPCO Inc. for the year ended December 31, 1997, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Williams Companies, Inc. at December 31, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, based on our audits and the report of other auditors, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company has given retroactive effect to the change in accounting for its crude oil and refined products inventories from the last-in, first-out cost method of inventory valuation to the average cost method. In addition, as also discussed in Note 1, effective January 1, 1999, the Company changed its method of accounting for start-up costs and, effective July 1, 1999, changed its method of accounting for lease transactions relating to its fiber optic network.

ERNST & YOUNG LLP

Tulsa, Oklahoma
February 17, 2000, except for the matters described
in the fourth and sixth paragraphs of Note 1,
Note 11, and Note 22, as to which the date is
June 9, 2000.

THE WILLIAMS COMPANIES, INC.

CONSOLIDATED STATEMENT OF INCOME

	YEARS ENDED DECEMBER 31,		
	1999	1998*	1997*
	(MILLIONS, EXCEPT PER-SHARE AMOUNTS)		
Revenues:			
Gas Pipeline	$ 1,831.6	$ 1,684.8	$1,680.1
Energy Services**	5,902.9	5,042.1	5,457.2
Communications	2,042.6	1,768.1	1,465.1
Other	114.6	68.4	53.4
Intercompany eliminations	(1,298.6)	(905.1)	(406.3)
Total revenues	8,593.1	7,658.3	8,249.5
Segment costs and expenses:			
Costs and operating expenses**	6,358.0	5,540.8	6,254.6
Selling, general and administrative expenses	1,304.7	1,115.7	848.9
Other expense -- net	13.9	195.8	38.6
Total segment costs and expenses	7,676.6	6,852.3	7,142.1
General corporate expenses	67.9	89.2	95.1
Operating income (loss):			
Gas Pipeline	697.3	610.4	614.7
Energy Services	529.0	386.1	539.4
Communications	(318.2)	(193.0)	(58.1)
Other	8.4	2.5	11.4
General corporate expenses	(67.9)	(89.2)	(95.1)
Total operating income	848.6	716.8	1,012.3
Interest accrued	(668.0)	(515.1)	(463.5)
Interest capitalized	69.8	30.6	23.3
Investing income	68.7	25.8	12.6
Gain on sale of interest in subsidiary	--	--	44.5
Gain on sales of assets	--	--	66.0
Minority interest in (income) loss and preferred returns of consolidated subsidiaries	7.2	9.6	(18.2)
Other income (expense) -- net	(3.3)	(19.1)	.5
Income from continuing operations before income taxes, extraordinary gain (loss) and cumulative effect of change in accounting principle	323.0	248.6	677.5
Provision for income taxes	161.2	107.2	240.7
Income from continuing operations	161.8	141.4	436.8
Loss from discontinued operations	--	(14.3)	(6.3)
Income before extraordinary gain (loss) and cumulative effect of change in accounting principle	161.8	127.1	430.5
Extraordinary gain (loss)	65.2	(4.8)	(79.1)
Cumulative effect of change in accounting principle	(5.6)	--	--
Net income	221.4	122.3	351.4
Preferred stock dividends	2.8	7.1	9.8
Income applicable to common stock	$ 218.6	$ 115.2	$ 341.6
Basic earnings per common share:			
Income from continuing operations	$ .36	$ .31	$ 1.04
Loss from discontinued operations	--	(.03)	(.02)
Income before extraordinary gain (loss) and cumulative effect of change in accounting principle	.36	.28	1.02
Extraordinary gain (loss)	.15	(.01)	(.19)
Cumulative effect of change in accounting principle	(.01)	--	--
Net income	$ .50	$ .27	$ .83
Diluted earnings per common share:			
Income from continuing operations	$ .36	$ .31	$ 1.01
Loss from discontinued operations	--	(.03)	(.01)
Income before extraordinary gain (loss) and cumulative effect of change in accounting principle	.36	.28	1.00
Extraordinary gain (loss)	.15	(.01)	(.19)
Cumulative effect of change in accounting principle	(.01)	--	--
Net income	$ .50	$ .27	$ .81

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* Certain amounts have been restated or reclassified as described in Note 1.

** Includes consumer excise taxes of $229.0 million, $192.9 million and $157.8

million in 1999, 1998 and 1997, respectively.

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

CONSOLIDATED BALANCE SHEET

ASSETS

(DOLLARS IN MILLIONS, EXCEPT PER-SHARE AMOUNTS)	DECEMBER 31, 1999	1998*
Current assets:		
Cash and cash equivalents	$ 1,092.0	$ 503.3
Short-term investments	1,434.8	--
Receivables less allowance of $48.0 ($30.5 in 1998)	2,508.2	1,724.6
Inventories	631.5	497.5
Energy trading assets	376.0	354.5
Deferred income taxes	203.7	239.9
Other	270.4	166.1
Total current assets	6,516.6	3,485.9
Investments	1,965.4	866.1
Property, plant and equipment -- net	15,155.5	12,585.3
Goodwill and other intangible assets -- net	435.6	583.6
Other assets and deferred charges	1,215.4	1,126.4
Total assets	$25,288.5	$18,647.3
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 1,378.8	$ 1,052.7
Accounts payable	2,049.9	1,158.2
Accrued liabilities	1,835.2	1,547.6
Energy trading liabilities	312.3	290.1
Long-term debt due within one year	196.0	390.6
Total current liabilities	5,772.2	4,439.2
Long-term debt	9,235.3	6,366.4
Deferred income taxes	2,581.9	2,060.8
Other liabilities and deferred income	1,041.8	1,015.2
Minority interest in consolidated subsidiaries	561.5	173.2
Contingent liabilities and commitments		
Preferred ownership interests of subsidiaries:		
Preferred interests of subsidiaries	335.1	335.1
Williams obligated mandatorily redeemable preferred securities of Trust holding only Williams indentures	175.5	--
Stockholders' equity:		
Preferred stock, $1 per share par value, 30 million shares authorized, 1.8 million issued in 1998	--	102.2
Common stock, $1 per share par value, 960 million shares authorized, 444.5 million issued in 1999, 432.3 million issued in 1998	444.5	432.3
Capital in excess of par value	2,356.7	982.4
Retained earnings	2,807.2	2,849.5
Accumulated other comprehensive income	99.5	16.7
Other	(77.6)	(78.5)
	5,630.3	4,304.6
Less treasury stock (at cost), 3.8 million shares of common stock in 1999 and 4.0 million in 1998	(45.1)	(47.2)
Total stockholders' equity	5,585.2	4,257.4
Total liabilities and stockholders' equity	$25,288.5	$18,647.3

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* Certain amounts have been reclassified as described in Note 1.

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	PREFERRED STOCK	COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS*	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	OTHER	TREASURY STOCK	TOTAL*
	(DOLLARS IN MILLIONS, EXCEPT PER-SHARE AMOUNTS)							
Balance, December 31, 1996, as previously reported	$ 161.0	$425.3	$ 942.2	$2,828.7	$ --	$(55.8)	$(286.6)	$4,014.8
Cumulative effect on prior years for change in inventory valuation method	--	--	--	22.1	--	--	--	22.1
BALANCE, DECEMBER 31, 1996, AS RESTATED	161.0	425.3	942.2	2,850.8	--	(55.8)	(286.6)	4,036.9
Comprehensive income:								
Net income -- 1997	--	--	--	351.4	--	--	--	351.4
Other comprehensive income:								
Unrealized depreciation on marketable equity securities	--	--	--	--	(2.4)	--	--	(2.4)
Foreign currency translation adjustments	--	--	--	--	(.1)	--	--	(.1)
Total other comprehensive income								(2.5)
Total comprehensive income								348.9
Cash dividends --								
Common stock ($.54 per share)	--	--	--	(171.7)	--	--	--	(171.7)
Common stock of pooled company	--	--	--	(32.9)	--	--	--	(32.9)
$2.21 preferred stock ($1.47 per share)	--	--	--	(1.1)	--	--	--	(1.1)
$3.50 preferred stock ($3.50 per share)	--	--	--	(8.7)	--	--	--	(8.7)
Issuance of shares -- .4 million common	--	.4	14.8	--	--	--	--	15.2
Purchase of treasury stock -- 2.7 million common	--	--	--	--	--	--	(50.2)	(50.2)
Conversion of preferred stock -- 2,528 shares	(.3)	--	.3	--	--	--	--	--
Redemption of preferred stock -- 741,552 shares	(18.5)	--	--	--	--	--	--	(18.5)
Treasury shares utilized for acquisition of business	--	--	.9	--	--	--	17.8	18.7
Expiration of equity put options	--	--	4.9	--	--	--	--	4.9
Stock award transactions (including 6.3 million common shares)	--	5.8	51.6	--	--	(1.6)	7.1	62.9
Tax benefit of stock-based awards	--	--	26.7	--	--	--	--	26.7
ESOP loan repayment	--	--	--	--	--	5.8	--	5.8
Other	--	--	.2	.7	--	--	--	.9
BALANCE, DECEMBER 31, 1997	142.2	431.5	1,041.6	2,988.5	(2.5)	(51.6)	(311.9)	4,237.8
Comprehensive income:								
Net income -- 1998	--	--	--	122.3	--	--	--	122.3
Other comprehensive income:								
Unrealized appreciation on marketable equity securities	--	--	--	--	24.1	--	--	24.1
Foreign currency translation adjustments	--	--	--	--	(4.9)	--	--	(4.9)
Total other comprehensive income								19.2
Total comprehensive income								141.5
Cash dividends --								
Common stock ($.60 per share)	--	--	--	(240.3)	--	--	--	(240.3)
Common stock of pooled company	--	--	--	(14.0)	--	--	--	(14.0)
$3.50 preferred stock ($3.50 per share)	--	--	--	(7.1)	--	--	--	(7.1)
Stockholders' notes issued	--	--	--	--	--	(35.7)	--	(35.7)
Conversion of preferred stock -- 704,190 shares	(40.0)	3.3	36.7	--	--	--	--	--
Retirement of treasury stock -- 14.0 million common	--	(14.0)	(239.8)	--	--	--	253.8	--
Expiration of equity put options	--	--	12.3	--	--	--	--	12.3
Stock award transactions (including 12.4 million common shares)	--	11.5	47.4	--	--	2.5	10.7	72.1
Tax benefit of stock-based awards	--	--	83.9	--	--	--	--	83.9
ESOP loan repayment	--	--	--	--	--	6.3	--	6.3
Other	--	--	.3	.1	--	--	.2	.6
BALANCE, DECEMBER 31, 1998	102.2	432.3	982.4	2,849.5	16.7	(78.5)	(47.2)	4,257.4
Comprehensive income:								
Net income -- 1999	--	--	--	221.4	--	--	--	221.4
Other comprehensive income:								
Unrealized appreciation on marketable equity securities	--	--	--	--	104.2	--	--	104.2
Foreign currency translation adjustments	--	--	--	--	(18.0)	--	--	(18.0)

Total other comprehensive income....								86.2
Total comprehensive income...........								307.6
Cash dividends --								
Common stock ($.60 per share).......	--	--	--	(260.9)	--	--	--	(260.9)
$3.50 preferred stock ($2.04 per share)............................	--	--	--	(2.8)	--	--	--	(2.8)
Stockholders' notes issued...........	--	--	--	--	--	(9.7)	--	(9.7)
Stockholders' notes repaid...........	--	--	--	--	--	3.3	--	3.3
Conversion of preferred stock -- 1.8 million shares..................	(102.2)	8.4	93.8	--	--	--	--	--
Issuance of subsidiary's common stock...............................	--	--	1,170.2	--	(3.4)	--	--	1,166.8
Stock award transactions (including 4.0 million common shares)..........	--	3.8	78.7	--	--	.4	2.1	85.0
Tax benefit of stock-based awards....	--	--	31.6	--	--	--	--	31.6
ESOP loan repayment..................	--	--	--	--	--	6.9	--	6.9
BALANCE, DECEMBER 31, 1999...........	$ --	$444.5	$2,356.7	$2,807.2	$ 99.5	$(77.6)	$ (45.1)	$5,585.2

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* Certain amounts have been restated as described in Note 1.

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

	YEARS ENDED DECEMBER 31,		
	1999	1998*	1997*
		(MILLIONS)	
Operating Activities:			
Net income	$ 221.4	$ 122.3	$ 351.4
Adjustments to reconcile to cash provided from operations:			
Discontinued operations	--	14.3	6.3
Extraordinary (gain) loss	(65.2)	4.8	79.1
Cumulative effect of change in accounting principle	5.6	--	--
Premium on early extinguishment of debt	--	(8.9)	(171.2)
Depreciation, depletion and amortization	742.0	646.3	585.9
Provision for deferred income taxes	455.1	39.7	93.8
Provision for loss on property and other assets	28.7	126.8	49.8
(Gain) loss on dispositions of assets and interest in subsidiary	(4.9)	5.9	(121.0)
Provision for uncollectible accounts	28.3	39.8	13.3
Minority interest in income (loss) and preferred returns of consolidated subsidiaries	(7.2)	(9.6)	18.2
Cash provided (used) by changes in assets and liabilities:			
Receivables sold	22.1	(41.8)	188.6
Receivables	(886.3)	(1.1)	(180.5)
Inventories	(118.7)	(53.1)	(62.1)
Other current assets	(117.7)	(12.3)	16.7
Accounts payable	949.2	(199.7)	188.0
Accrued liabilities	67.9	91.9	(37.6)
Changes in current energy trading assets and liabilities	.8	(66.2)	11.0
Changes in non-current energy trading assets and liabilities	(59.1)	(44.6)	(47.7)
Changes in non-current deferred income	176.9	113.0	53.7
Other, including changes in non-current assets and liabilities	48.8	(89.7)	(47.5)
Net cash provided by operating activities	1,487.7	677.8	988.2
Financing Activities:			
Proceeds from notes payable	2,493.8	806.9	1,927.4
Payments of notes payable	(2,284.0)	(946.0)	(1,305.5)
Proceeds from long-term debt	4,507.2	3,597.0	2,217.4
Payments of long-term debt	(1,831.5)	(1,776.5)	(2,199.0)
Proceeds from issuance of common stock including tax benefit	141.3	78.2	72.5
Proceeds from issuance of subsidiary's common stock	1,468.1	--	--
Purchases of treasury stock	--	--	(50.2)
Dividends paid	(263.7)	(261.4)	(214.4)
Proceeds from issuance of preferred ownership interests of subsidiaries	175.0	335.1	--
Other -- net	(29.2)	(24.7)	(24.3)
Net cash provided by financing activities	4,377.0	1,808.6	423.9
Investing Activities:			
Property, plant and equipment:			
Capital expenditures	(3,513.1)	(1,811.8)	(1,340.5)
Proceeds from dispositions and excess fiber capacity transactions	83.9	81.6	104.2
Changes in accounts payable and accrued liabilities	93.5	87.9	(7.5)
Acquisitions of businesses, net of cash acquired	(171.4)	(9.6)	(146.7)
Proceeds from sales of assets	356.1	11.6	71.2
Purchases of short-term investments	(2,034.2)	--	--
Proceeds from sales of short-term investments	599.4	--	--
Purchases of investments/advances to affiliates	(696.0)	(470.3)	(205.6)
Other -- net	5.8	5.4	14.8
Net cash used by investing activities	(5,276.0)	(2,105.2)	(1,510.1)
Increase (decrease) in cash and cash equivalents	588.7	381.2	(98.0)
Cash and cash equivalents at beginning of year	503.3	122.1	220.1
Cash and cash equivalents at end of year	$ 1,092.0	$ 503.3	$ 122.1

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* Certain amounts have been restated or reclassified as described in Note 1.

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of business

Operations of The Williams Companies, Inc. (Williams) are located principally in the United States and are organized into three industry groups: Gas Pipeline, Energy Services and Communications.

Gas Pipeline is comprised of five interstate natural gas pipelines located throughout the majority of the United States as well as investments in domestic natural gas pipeline-related companies. The five Gas Pipeline operating segments have been aggregated for reporting purposes and include Williams Gas Pipelines Central, Kern River Gas Transmission, Northwest Pipeline, Texas Gas Transmission and Transcontinental Gas Pipe Line.

Energy Services includes four operating segments: Energy Marketing & Trading, Exploration & Production, Midstream Gas & Liquids and Petroleum Services. Energy Marketing & Trading offers price-risk management services and buys, sells and arranges for transportation/transmission of energy commodities -- including natural gas and gas liquids, crude oil and refined products, and electricity -- to local distribution companies and large industrial and commercial customers in North America. Exploration & Production includes hydrocarbon exploration and production activities in the Rocky Mountain and Gulf Coast regions. Midstream Gas & Liquids is comprised of natural gas gathering and processing facilities in the Rocky Mountain, midwest and Gulf Coast regions, natural gas liquids pipelines in the Rocky Mountain, southwest, midwest and Gulf Coast regions and an anhydrous ammonia pipeline in the midwest. Petroleum Services includes petroleum refining and marketing in Alaska and the southeast, a petroleum products pipeline and ethanol production and marketing operations in the midwest region.

Effective first-quarter 2000, Communications consists of four operating segments: Network, Broadband Media, Solutions and Strategic Investments. Network includes fiber-optic construction, transmission and management services throughout North America, fiber-optic construction and transmission services in Australia and investments in domestic communications companies. Broadband Media includes operations principally located in the United States offering video, advertising distribution and other multimedia transmission services via terrestrial and satellite links for the broadcast industry as well as investments in domestic broadband media companies. Solutions includes distribution and integration of communications equipment for voice and data networks in the United States, Canada and Mexico. Strategic Investments includes certain other investments in domestic communications companies and investments in foreign communications companies located in Brazil and Chile. Segment information has been restated to conform to this presentation.

Basis of presentation

Communications' 1998 and 1997 segment results have been restated to include the results of investments in certain Brazilian and Australian telecommunications projects, which had previously been reported in Other segment revenues and profit.

On March 28, 1998, Williams completed the acquisition of MAPCO Inc. The transaction has been accounted for as a pooling of interests and, accordingly, the consolidated financial statements and notes reflect the results of operations, financial position and cash flows as if the companies had been combined throughout the periods presented. MAPCO was engaged in the natural gas liquids pipeline, petroleum refining and marketing and propane marketing businesses, and became part of the Energy Services business unit. Effective April 1, 1998, certain marketing activities were transferred from other Energy Services segments to Energy Marketing & Trading and combined with its energy risk trading operations. During first-quarter 2000, management of the marketing activities of the Alaskan refinery were transferred from Energy Marketing & Trading to Petroleum Services. Segment information has been restated to reflect this transfer of management of the Alaskan activities. The income statement presentation relating to certain of the marketing operations

within Energy Marketing & Trading was changed effective April 1, 1998, on a prospective basis, to reflect these revenues net of the related costs to purchase such items. Activity prior to this date is reflected on a "gross" basis in Energy Marketing & Trading's segment results and in the Consolidated Statement of Income. Concurrent with completing the combination of such activities with the energy risk trading operations of Energy Marketing & Trading, the related contract rights and obligations of certain of these operations were recorded in the Consolidated Balance Sheet at fair value consistent with Energy Marketing & Trading's accounting policy.

Certain prior year amounts have been reclassified to conform to current year classifications.

Principles of consolidation

The consolidated financial statements include the accounts of Williams, its majority-owned subsidiaries, and a subsidiary that Williams controls but owns less than 50 percent of the voting common stock. Companies in which Williams and its subsidiaries own 20 percent to 50 percent of the voting common stock, or otherwise exercise significant influence over operating and financial policies of the company, are accounted for under the equity method.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include demand and time deposits, certificates of deposit and other marketable securities with maturities of three months or less when acquired. Certain items which meet the definition of cash equivalents, but are part of a larger pool of investments managed by financial institutions, are included in short-term investments.

Transportation and exchange gas imbalances

In the course of providing transportation services to customers, the natural gas pipelines may receive different quantities of gas from shippers than the quantities delivered on behalf of those shippers. Additionally, the pipelines and other Williams' subsidiaries transport gas on various pipeline systems which may deliver different quantities of gas on their behalf than the quantities of gas received. These transactions result in gas transportation and exchange imbalance receivables and payables which are recovered or repaid in cash or through the receipt or delivery of gas in the future. Settlement of imbalances requires agreement between the pipelines and shippers as to allocations of volumes to specific transportation contracts and timing of delivery of gas based on operational conditions. At December 31, 1999 and 1998, transportation and exchange gas receivables were $47.5 million and $96.4 million, respectively, and transportation and exchange gas payables were $41.7 million and $47.1 million, respectively.

Inventory valuation

In the fourth quarter of 1999, Williams conformed its accounting for all of its inventories of non-trading crude oil and refined products to the average-cost method or market, if lower, the method used for the majority of such inventories. Previously, certain of these inventories were carried on the last-in, first-out (LIFO) cost method which was the inventory valuation method used by MAPCO. At the time of the MAPCO acquisition, Williams began using its business and risk management practices to manage such inventories, but continued using the LIFO cost method. After taking into account its risk management

practices, Williams now believes the average-cost method for such inventories is preferable because it provides a better measure of periodic income. In addition, the change results in the consistent valuation of Williams' non-trading crude oil and refined products inventories. All previously reported results have been restated to reflect the retroactive application of this accounting change. The accounting change increased net income for 1999 by $21.9 million, or $.05 per diluted share, and decreased net income previously reported for 1998 by $5.2 million, or $.01 per diluted share, and for 1997 by $16.9 million, or $.04 per diluted share. Retained earnings as of December 31, 1996, was increased by $22.1 million.

Other inventories are stated at cost, which is not in excess of market, except for certain assets held for energy trading activities by Energy Marketing & Trading, which are primarily stated at fair value. The cost of these other inventories is primarily determined using the average-cost method, except for certain natural gas inventories held by Transcontinental Gas Pipe Line and general merchandise inventories held by Petroleum Services which are determined using the LIFO cost method.

Property, plant and equipment

Property, plant and equipment is recorded at cost. Depreciation is provided primarily on the straight-line method over estimated useful lives. Gains or losses from the ordinary sale or retirement of property, plant and equipment for regulated pipelines are credited or charged to accumulated depreciation; other gains or losses are recorded in net income.

Goodwill and other intangible assets

Goodwill, which represents the excess of cost over fair value of assets of businesses acquired, is amortized on a straight-line basis over periods from 10 to 25 years. Other intangible assets are amortized on a straight-line basis over periods from three to 20 years. Accumulated amortization at December 31, 1999 and 1998 was $144.9 million and $128.9 million, respectively. Amortization was $50.7 million, $49.7 million and $29.2 million in 1999, 1998 and 1997, respectively.

Treasury stock

Treasury stock purchases are accounted for under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. Gains and losses on the subsequent reissuance of shares are credited or charged to capital in excess of par value using the average-cost method.

Gas Pipeline revenues

Revenues for sales of products are recognized in the period of delivery and revenues from the transportation of gas are recognized based on contractual terms and the related transported volumes. Gas Pipeline is subject to Federal Energy Regulatory Commission (FERC) regulations and, accordingly, certain revenues collected may be subject to possible refunds upon final orders in pending cases. Gas Pipeline records rate refund liabilities considering Gas Pipeline and other third party regulatory proceedings, advice of counsel and estimated total exposure, as discounted and risk weighted, as well as collection and other risks.

Energy Services revenues

Revenues generally are recorded when services have been performed or products have been delivered. A portion of Petroleum Services is subject to FERC regulations and, accordingly, the method of recording these revenues is consistent with Gas Pipeline's method discussed above. Certain of Energy Marketing & Trading's activities are accounted for at fair value as described in Energy Trading Activities.

Communications revenues

For Network and Broadband Media, transmission and management service revenues are recognized monthly as the services are provided. Amounts billed in advance of the service month are recorded as deferred revenue.

Network uses lease accounting to record revenues related to cash received for the right to use portions of its fiber-optic network. The lease transactions are evaluated for sales-type lease accounting which results in certain lease transactions being accounted for as sales upon completion of the construction of the respective network segments and upon acceptance of the fiber by the purchaser. Transactions that do not meet the criteria for a sales-type lease are accounted for as an operating lease and revenue is recorded over the term of the lease. In accordance with Financial Accounting Standards Board (FASB) Interpretation No. 43, "Real Estate Sales, an interpretation of FASB Statement No. 66," issued in June 1999, lease transactions entered into after June 30, 1999, are accounted for as operating leases unless title to the fibers under lease transfers to the lessee. The effect of this interpretation on 1999 results was not significant.

Solutions uses the percentage-of-completion method to record revenues related to upgrades and new system sales. Revenues for these contracts are initially recognized upon delivery of equipment with remaining revenues under the contracts recognized over the installation period based on the relationship of incurred labor to total estimated labor. Estimated losses on all contracts in progress are accrued when the loss becomes known. The billings associated with these contracts occur incrementally over the term of the agreement or upon completion of the contract as provided. At December 31, 1999 and 1998, costs incurred and estimated earnings in excess of billings were $166.7 million and $185.9 million, respectively, and billings in excess of costs incurred and estimated earnings were $50.7 million and $49.4 million, respectively.

Solutions uses the completed-contract method to record revenues related to customer service orders. Revenues on contracts for the maintenance of installed systems are deferred and amortized on a straight-line basis over the lives of the related contracts.

Energy trading activities

Energy Marketing & Trading has trading operations that enter into energy contracts to provide price-risk management services to its third-party customers. Energy contracts include forward contracts, futures contracts, option contracts, swap agreements, commodity inventories and short- and long-term purchase and sale commitments which involve physical delivery of an energy commodity. These energy contracts are valued at fair value and, with the exception of commodity inventories, are recorded in energy trading assets, other assets and deferred charges, energy trading liabilities and other liabilities and deferred income in the Consolidated Balance Sheet. The net change in fair value representing unrealized gains and losses is recognized in income currently and is recorded as revenues in the Consolidated Statement of Income. Fair value, which is subject to change in the near term, reflects management's estimates using valuation techniques that reflect the best information available in the circumstances. This information includes various factors such as quoted market prices, estimates of market prices in the absence of quoted market prices, contractual volumes, estimated volumes under option and other arrangements that result in varying volumes, other contract terms, liquidity of the market in which the contract is transacted, credit considerations, time value and volatility factors underlying the positions. Energy Marketing & Trading reports its trading operations' physical sales transactions net of the related purchase costs, consistent with fair value accounting for such trading activities.

Williams also enters into energy derivative financial instruments and derivative commodity instruments (primarily futures contracts, option contracts and swap agreements) to hedge against market price fluctuations of certain commodity inventories and sales and purchase commitments. Unrealized and realized gains and losses on these hedge contracts are deferred and recognized in income in the same manner as the hedged item. These contracts are initially and regularly evaluated to determine that there is a high correlation between

changes in the fair value of the hedge contract and fair value of the hedged item. In instances where the anticipated correlation of price movements does not occur, hedge accounting is terminated and future changes in the value of the instruments are recognized as gains or losses. If the hedged item of the underlying transactions is sold or settled, the instrument is recognized into income.

Impairment of long-lived assets

Williams evaluates the long-lived assets, including related intangibles, of identifiable business activities for impairment when events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on management's estimate of undiscounted future cash flows attributable to the assets as compared to the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value for the assets and recording a provision for loss if the carrying value is greater than fair value.

For assets identified to be disposed of in the future, the carrying value of these assets is compared to the estimated fair value less the cost to sell to determine if an impairment is required. Until the assets are disposed of, an estimate of the fair value is redetermined when related events or circumstances change.

Interest-rate derivatives

Williams enters into interest-rate swap agreements to modify the interest characteristics of its long-term debt. These agreements are designated with all or a portion of the principal balance and term of specific debt obligations. These agreements involve the exchange of amounts based on a fixed interest rate for amounts based on variable interest rates without an exchange of the notional amount upon which the payments are based. The difference to be paid or received is accrued and recognized as an adjustment of interest accrued. Gains and losses from terminations of interest-rate swap agreements are deferred and amortized as an adjustment of the interest expense on the outstanding debt over the remaining original term of the terminated swap agreement. In the event the designated debt is extinguished, gains and losses from terminations of interest-rate swap agreements are recognized in income.

Kern River specifically has interest-rate swap agreements that are not designated with long-term debt that are recorded in other liabilities at market value. Changes in market value are recorded as adjustments to a regulatory asset which is expected to be recovered in transportation rates.

Capitalization of interest

Williams capitalizes interest on major projects during construction. Interest is capitalized on borrowed funds and, where regulation by the FERC exists, on internally generated funds. The rates used by regulated companies are calculated in accordance with FERC rules. Rates used by unregulated companies approximate the average interest rate on related debt. Interest capitalized on internally generated funds, as permitted by FERC rules, is included in non-operating other income (expense) -- net.

Employee stock-based awards

Employee stock-based awards are accounted for under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Fixed-plan common stock options generally do not result in compensation expense because the exercise price of the stock options equals the market price of the underlying stock on the date of grant.

Income taxes

Williams includes the operations of its subsidiaries in its consolidated tax return. For certain of the periods presented, Williams and MAPCO separately included the operations of their respective subsidiaries in consolidated federal income tax returns. Williams and MAPCO began filing a single consolidated federal income tax return as of the date of the merger. Deferred income taxes are computed using the liability method and are provided on all temporary differences between the financial basis and the tax basis of Williams' assets and liabilities.

Earnings per share

Basic earnings per share are based on the sum of the average number of common shares outstanding and issuable restricted and deferred shares. Diluted earnings per share include any dilutive effect of stock options and convertible preferred stock.

Foreign currency translation

The functional currency of Williams is the U.S. dollar. The functional currency of certain of Williams' foreign operations is the applicable local currency for each foreign subsidiary and equity method investee, including the Australian dollar, Brazilian real, Canadian dollar and Lithuanian lita. Assets and liabilities of certain foreign subsidiaries and equity investees are translated at the spot rate in effect at the applicable reporting date, and the combined statements of operations and Williams' share of the results of operations of its equity affiliates are translated at the average exchange rates in effect during the applicable period. The resulting cumulative translation adjustment is recorded as a separate component of other comprehensive income.

Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses which are reflected in the Consolidated Statement of Income.

Recent accounting standards

Effective January 1, 1999, Williams adopted Statement of Position (SOP) 98-5, "Reporting on the Costs of Start-Up Activities." The SOP requires that all start-up costs be expensed as incurred, and the expense related to the initial application of this SOP of $5.6 million (net of a $3.6 million benefit for income taxes) is reported as the cumulative effect of change in accounting principle.

Additionally, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities," which was adopted in the first quarter of 1999. The cumulative effect of initially applying the consensus at January 1, 1999, is immaterial to Williams' results of operations and financial position.

The FASB issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." This standard, as amended, will be effective for Williams beginning January 1, 2001. This standard requires that all derivatives be recognized as assets or liabilities in the balance sheet and that those instruments be measured at fair value. The effect of this standard on Williams' results of operations and financial position is being evaluated.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements." The effect of this guidance on Williams' results of operations and financial position is being evaluated.

NOTE 2. ACQUISITIONS

MAPCO

On March 28, 1998, Williams completed the acquisition of MAPCO Inc. by exchanging 1.665 shares of Williams common stock for each outstanding share of MAPCO common stock. In addition, outstanding MAPCO employee stock options were converted into 5.7 million shares of Williams common stock. Upon completion, 98.8 million shares of Williams common stock valued at $3.1 billion, based on the closing price of Williams common stock on March 27, 1998, were issued. Also in connection with the merger, 8.4 million shares of MAPCO $1 par value common stock previously held in treasury were retired. These shares had a carrying value of $253.8 million. The merger constituted a tax-free reorganization and has been accounted for as a pooling of interests.

In connection with the merger, Williams recognized approximately $80 million in merger-related costs in 1998, comprised primarily of outside professional fees and early retirement and severance costs. Approximately $51 million of these merger-related costs are included in other expense -- net as a component of segment profit within Energy Services for 1998, and approximately $29 million, unrelated to segments, is included in general corporate expenses. During 1997, payments of $32.6 million were made for non-compete agreements. These costs are being amortized over one to three years from the merger completion date.

Nortel

On April 30, 1997, Williams and Northern Telecom Limited (Nortel) combined their customer-premise equipment sales and service operations into a limited liability company, Williams Communications Solutions, LLC. In addition, Williams paid $68 million to Nortel. Williams has accounted for its 70 percent interest in the operations that Nortel contributed to the LLC as a purchase business combination, and beginning May 1, 1997, has included the results of operations of the acquired company in Williams' Consolidated Statement of Income. Accordingly, the acquired assets and liabilities, including $168 million in accounts receivable, $68 million in accounts payable and accrued liabilities, and $150 million in debt obligations, were recorded based on an allocation of the purchase price, with substantially all of the cost in excess of historical carrying values allocated to goodwill.

Williams recorded the 30 percent reduction in its operations contributed to the LLC as a sale to the minority shareholder of the LLC. Williams recognized a gain of $44.5 million based on the excess of the fair value over the net book value (approximately $71 million) of its operations conveyed to the LLC minority interest. Income taxes were not provided on the gain, because the transaction did not affect the difference between the financial and tax bases of identifiable assets and liabilities.

NOTE 3. DISCONTINUED OPERATIONS

Williams accrued losses of $14.3 million (net of a $7.4 million income tax benefit) and $6.3 million (net of a $.7 million income tax benefit) in 1998 and 1997, respectively. The losses related to a business sold in 1996 and include cost accruals for contractual obligations related to financial performance of those assets and a 1997 income tax adjustment to the 1996 loss on the assets sold.

NOTE 4. INVESTING ACTIVITIES

Short-term investments

Short-term investments at December 31, 1999, consist of the following:

	(MILLIONS)
Commercial paper	$ 516.9
Debt securities mutual fund	354.9
Auction securities consisting primarily of asset-backed and corporate debt securities	334.3
Other debt securities and time deposits	228.7
	$1,434.8

Maturities of short-term investments are primarily one year or less with the exception of the mutual funds which do not have a maturity. All short-term investments are classified as available-for-sale under the scope of SFAS 115 "Accounting for Certain Investments in Debt and Equity Securities." The carrying amounts of these investments are reported at fair value, which approximate cost at December 31, 1999, with net unrealized appreciation or depreciation reported as a component of other comprehensive income.

Long-term investments

Long-term investments at December 31, 1999 and 1998 are as follows:

	1999	1998
	(MILLIONS)	
Equity method:		
ATL-Algar Telecom Leste S.A. -- common stock	$ 42.6	$ 42.7
Alliance Pipeline -- 14.6%	162.7	--
AB Mazeikiu Nafta -- 33%	73.7	--
Longhorn Partners Pipeline, L.P. -- 31.5%	98.4	90.0
Discovery Pipeline -- 50%	92.6	78.0
Other	245.1	163.9
	715.1	374.6
Cost method:		
ATL-Algar Telecom Leste S.A. -- preferred stock	317.0	100.0
Algar Telecom S.A. -- common and preferred stock	52.8	52.4
Other	226.3	157.0
	596.1	309.4
Ferrellgas Partners L.P. senior common units	175.7	--
Marketable equity securities	288.1	77.0
Advances to affiliates	190.4	105.1
	$1,965.4	$866.1

At December 31, 1998, Williams owned 30 percent of the preferred shares in ATL-Algar Telecom Leste S.A. (ATL) and through participation in a limited liability company owned 30 percent of the common stock. In March 1999, Williams purchased from Algar Telecom S.A. for $265 million an additional 43 percent of the preferred shares and 19 percent of the common stock in ATL. In March 1999, Williams pledged its 49 percent and 73 percent investment in ATL's common and preferred stock, respectively, as collateral for a U.S. dollar denominated $521 million loan from Ericsson Project Finance AB to ATL. In addition, Algar

Telecom pledged 49 percent of its 51 percent investment in ATL common stock and 100 percent of its 27 percent investment in ATL preferred stock as collateral for the loan.

Subsequent to December 31, 1999, Williams sold 30 percent and 7 percent of the common and preferred stock, respectively, of ATL to SBC Communications, Inc. and Telefonos de Mexico S.A. de C.V. for aggregate proceeds of $148 million.

The Ferrellgas Partners L.P. senior common units are non-voting and become callable in two years and bear a fixed yield of 10 percent. The carrying amount of this investment is reported at fair value which approximates cost at December 31, 1999.

Included in the preceding investments table are marketable equity securities which are classified as available-for-sale under the scope of SFAS No. 115. The carrying amount of these investments is reported at fair value with net unrealized appreciation or depreciation reported as a component of other comprehensive income. The aggregate cost of these investments at December 31, 1999 and 1998 was $57.7 million and $41.5 million, respectively. Fair value exceeded cost for each marketable equity security investment at December 31, 1999 and 1998.

Subsequent to December 31, 1999, Williams liquidated a portion of its marketable equity securities portfolio, yielding proceeds of $35.9 million. At December 31, 1999, these investments had a cost and carrying value of $4.4 million and $35.7 million, respectively.

Summarized unaudited financial position and results of operations of Williams' equity method investments are as follows:

	1999	1998
	(MILLIONS)	
Current assets	$ 646.3	$ 202.0
Non-current assets	6,884.1	4,938.6
Current liabilities	1,125.2	1,030.8
Non-current liabilities	3,771.8	2,546.7
Revenues	839.7	347.0
Costs and operating expenses	581.9	164.6
Net income (loss)	(96.1)	70.1

The non-current assets consist primarily of communication and interstate natural gas pipeline assets.

Dividends and distributions received from companies carried on an equity basis were $14 million, $16 million and $7 million in 1999, 1998 and 1997, respectively.

Certain investments accounted for under the equity method are publicly traded. At December 31, 1999, these investments had a carrying value of $65 million and a quoted market value of $183.1 million.

Earnings and losses related to equity method investments are included in revenues. Investing income for all of the years presented is comprised primarily of interest income.

NOTE 5. ASSET SALES, IMPAIRMENTS AND OTHER ACCRUALS

Included in other expense -- net within segment costs and expenses and Energy Marketing & Trading's segment profit for 1999 is a $22.3 million gain related to the sale of certain of its retail gas and electric operations.

Included in other expense -- net within segment costs and expenses and Exploration & Production's segment profit for 1999 is a $14.7 million gain related to the sale of certain of its gas producing properties.

Included in other expense -- net within segment costs and expenses and Strategic Investments' segment loss for 1999, is a pre-tax loss totaling $28.4 million relating to management's second-quarter 1999 decision and commitment to sell certain network application businesses. The $28.4 million loss consists of a $24.5 million impairment of the assets to fair value, based on the net sales proceeds of $50 million, and $3.9 million in exit costs consisting of contractual obligations related to the sales of these businesses. These transactions resulted in an increase in the income tax provision of approximately $7.9 million, which reflects the impact of goodwill not deductible for tax purposes. Segment losses for the operations related to these assets for 1999, 1998 and 1997 were $10 million, $22 million and $15 million, respectively.

Included in other expense -- net within segment costs and expenses and Energy Marketing & Trading's segment profit for 1998 is a $14 million asset impairment related to the decision to focus its retail natural gas and electric business from sales to small commercial and residential customers to large end users. The impairment primarily reflects the reduction in value of a software system and certain intangible assets associated specifically with retail energy applications that will no longer be utilized by Energy Marketing & Trading and for which management estimates the fair value to be insignificant.

Included in 1998 other expense -- net within segment costs and expenses and Strategic Investments' segment loss is a $23.2 million loss related to a venture involved in the technology and transmission of business information for news and educational purposes. The loss occurred as a result of Williams' re-evaluation and decision to exit the venture as Williams decided against making further investments in the venture. Williams abandoned its entire ownership interest in the venture during fourth-quarter 1998. The loss primarily consists of $17 million from the impairment of the total carrying amount of the investment and $5 million from recognition of contractual obligations that continued after the abandonment. Williams' share of losses from the venture is not significant to consolidated net income for any periods presented.

In fourth-quarter 1997, Williams made the decision and committed to a plan to sell the learning content business, which resulted in a loss of $22.7 million included in 1997 other expense -- net within segment costs and expenses and Strategic Investments' segment loss. The loss consisted of a $21 million impairment of the assets to fair value less cost to sell and recognition of $1.7 million in costs associated with the decision to sell the business. Fair value was based on management's estimate of the expected net proceeds to be received. During 1998, a significant portion of the learning content business was sold with a resulting $2 million reduction in 1998 expenses. The results of operations and the effect of suspending amortization for the learning content business included in consolidated net income are not significant for any of the periods presented.

In 1997, Williams sold its interest in the natural gas liquids and condensate reserves in the West Panhandle field of Texas for $66 million in cash. The sale resulted in a $66 million pre-tax gain on the transaction, because the related reserves had no book value.

NOTE 6. PROVISION FOR INCOME TAXES

The provision (benefit) for income taxes from continuing operations includes:

	1999	1998	1997
		(MILLIONS)	
Current:			
Federal	$(318.0)	$ 57.8	$121.5
State	18.7	5.1	23.1
Foreign	5.4	4.6	2.3
	(293.9)	67.5	146.9
Deferred:			
Federal	442.1	29.0	79.9
State	21.8	10.7	13.9
Foreign	(8.8)	--	--
	455.1	39.7	93.8
Total provision	$ 161.2	$107.2	$240.7

Reconciliations from the provision for income taxes from continuing operations at the federal statutory rate to the provision for income taxes are as follows:

	1999	1998	1997
		(MILLIONS)	
Provision at statutory rate	$113.0	$ 87.0	$237.1
Increases (reductions) in taxes resulting from:			
State income taxes (net of federal benefit)	26.3	10.0	23.9
Non-deductible costs, including goodwill amortization	5.6	10.5	7.0
Income tax credits	(5.8)	(4.0)	(16.5)
Non-deductible costs related to asset sales	16.8	--	--
Non-taxable gain from sale of interest in subsidiary	--	--	(15.6)
Foreign operations	10.5	8.5	(.2)
Other -- net	(5.2)	(4.8)	5.0
Provision for income taxes	$161.2	$107.2	$240.7

Significant components of deferred tax liabilities and assets as of December 31 are as follows:

	1999	1998
	(MILLIONS)	
Deferred tax liabilities:		
Property, plant and equipment	$2,248.0	$2,149.2
Investments	569.5	133.5
Other	79.0	95.3
Total deferred tax liabilities	2,896.5	2,378.0
Deferred tax assets:		
Rate refunds	84.9	124.1
Accrued liabilities	151.0	181.5
Minimum tax credits	213.6	178.5
Other	68.8	73.0
Total deferred tax assets	518.3	557.1
Net deferred tax liabilities	$2,378.2	$1,820.9

In 1999, cash refunds exceeded cash payments resulting in a net refund of $387 million. Federal tax refunds received in 1999 are reflected as current tax benefits with offsetting deferred tax provisions attributable to temporary differences between the book and tax basis of certain assets. Cash payments for income taxes (net of refunds) were $29 million and $126 million in 1998 and 1997, respectively.

NOTE 7. EXTRAORDINARY GAIN (LOSS)

On December 17, 1999, Williams sold its retail propane business, Thermogas L.L.C., previously a subsidiary of MAPCO, to Ferrellgas Partners L.P. (Ferrellgas) for $443.7 million, including $175 million in senior common units of Ferrellgas. The sale resulted from an unsolicited offer from Ferrellgas and yielded an after-tax gain of $65.2 million (net of a $47.9 million provision for income taxes), which is reported as an extraordinary gain. The results of operations from this business are not significant to consolidated net income for any periods presented. Thermogas operations are reported within the Energy Marketing & Trading segment.

During 1998, Williams paid $54.4 million to redeem higher interest rate debt for a $4.8 million net loss (net of a $2.6 million benefit for income taxes).

During 1997, Williams paid approximately $1.4 billion to redeem approximately $1.3 billion of debt with stated interest rates in excess of 8.8 percent, for a net loss of $79.1 million (net of a $46.6 million benefit for income taxes). In addition, approximately $30 million of costs to redeem the debt have been deferred as a regulatory asset for rate recovery and are being amortized over the original term of the related debt.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 8. EARNINGS PER SHARE

Basic and diluted earnings per common share are computed for the years ended December 31, 1999, 1998 and 1997, as follows:

	1999	1998	1997
	(DOLLARS IN MILLIONS, EXCEPT PER-SHARE AMOUNTS; SHARES IN THOUSANDS)		
Income from continuing operations	$ 161.8	$ 141.4	$ 436.8
Preferred stock dividends	(2.8)	(7.1)	(9.8)
Income from continuing operations available to common stockholders for basic earnings per share	159.0	134.3	427.0
Effect of dilutive securities:			
Convertible preferred stock dividends	--	--	8.7
Income from continuing operations available to common stockholders for diluted earnings per share	$ 159.0	$ 134.3	$ 435.7
Basic weighted-average shares	436,117	425,681	412,380
Effect of dilutive securities:			
Convertible preferred stock	--	--	11,717
Stock options	5,395	6,135	6,097
	5,395	6,135	17,814
Diluted weighted-average shares	441,512	431,816	430,194
Earnings per share from continuing operations:			
Basic	$ .36	$ .31	$ 1.04
Diluted	$ .36	$ .31	$ 1.01

Approximately 6.2 million, 5 million and 3.1 million options to purchase shares of common stock with weighted-average exercise prices of $38.56, $32.20 and $27.93, respectively, were outstanding on December 31, 1999, 1998 and 1997, respectively, but have been excluded from the computation of diluted earnings per share. Inclusion of these shares would be antidilutive, as the exercise prices of the options exceeded the average market prices of the common shares for the respective years.

Additionally for 1999 and 1998, approximately 5.4 million and 9.6 million shares, respectively, related to the assumed conversion of the $3.50 convertible preferred stock have been excluded from the computation of diluted earnings per share. Inclusion of these shares would be antidilutive.

NOTE 9. EMPLOYEE BENEFIT PLANS

The following table presents the changes in benefit obligations and plan assets for pension benefits and other postretirement benefits for the years indicated. It also presents a reconciliation of the funded status of these benefits to the amount recognized in the Consolidated Balance Sheet at December 31 of each year indicated.

	PENSION BENEFITS		OTHER POSTRETIREMENT BENEFITS	
	1999	1998	1999	1998
	(MILLIONS)			
Change in benefit obligation:				
Benefit obligation at beginning of year	$1,045.7	$ 969.8	$ 449.0	$ 389.8
Service cost	44.8	41.9	8.7	8.9
Interest cost	70.0	70.0	30.3	29.1
Plan participants' contributions	--	--	1.8	1.6
Amendments	19.2	(65.2)	--	2.2
Acquisition (divestures)	4.2	--	(.7)	--
Settlement/curtailment gain	(7.6)	(29.5)	--	--
Special termination benefit cost	2.2	35.1	--	3.6
Actuarial (gain) loss	(220.1)	134.6	(19.8)	32.3
Benefits paid	(103.1)	(111.0)	(20.0)	(18.5)
Benefit obligation at end of year	855.3	1,045.7	449.3	449.0
Change in plan assets:				
Fair value of plan assets at beginning of year	1,039.1	975.7	209.7	184.5
Actual return on plan assets	188.5	120.7	33.2	17.2
Acquisition	4.9	.1	--	--
Employer contributions	27.3	53.6	27.8	24.9
Plan participants' contributions	--	--	1.8	1.6
Benefits paid	(98.1)	(83.0)	(20.0)	(18.5)
Settlement benefits paid	(5.0)	(28.0)	--	--
Fair value of plan assets at end of year	1,156.7	1,039.1	252.5	209.7
Funded status	301.4	(6.6)	(196.8)	(239.3)
Unrecognized net actuarial (gain) loss	(233.1)	97.4	(32.4)	7.4
Unrecognized prior service credit	(20.3)	(54.8)	(.6)	(.2)
Unrecognized transition (asset) obligation	(1.0)	(1.7)	53.0	57.0
Prepaid (accrued) benefit cost	$ 47.0	$ 34.3	$(176.8)	$(175.1)
Prepaid benefit cost	$ 78.4	$ 83.0	$ 3.8	$ --
Accrued benefit cost	(31.4)	(48.7)	(180.6)	(175.1)
	$ 47.0	$ 34.3	$(176.8)	$(175.1)

Net pension and other postretirement benefit expense consists of the following:

	PENSION BENEFITS		
	1999	1998	1997
	(MILLIONS)		
Components of net periodic pension expense:			
Service cost	$ 44.8	$ 41.9	$ 34.9
Interest cost	70.0	70.0	63.6
Expected return on plan assets	(95.9)	(89.5)	(76.9)
Amortization of transition asset	(.7)	(.7)	(.7)
Amortization of prior service cost (credit)	(2.5)	(4.1)	1.0
Recognized net actuarial loss	2.1	6.5	3.6
Regulatory asset amortization	7.2	12.2	5.3
Settlement/curtailment gain	(5.6)	(22.2)	--
Special termination benefit cost	2.2	35.1	--
Net periodic pension expense	$ 21.6	$ 49.2	$ 30.8

	OTHER POSTRETIREMENT BENEFITS		
	1999	1998	1997
	(MILLIONS)		
Components of net periodic postretirement benefit expense:			
Service cost	$ 8.7	$ 8.9	$ 7.1
Interest cost	30.3	29.1	24.4
Expected return on plan assets	(14.3)	(12.1)	(9.9)
Amortization of transition obligation	4.0	4.1	4.1
Amortization of prior service cost	.4	.4	--
Recognized net actuarial loss (gain)	.3	.2	(1.0)
Regulatory asset amortization	9.0	5.4	12.5
Special termination benefit cost	--	3.6	--
Net periodic postretirement benefit expense	$ 38.4	$ 39.6	$37.2

In connection with the MAPCO merger, Williams offered an early retirement incentive program to a certain group of employees during 1998. Texas Gas Transmission also offered an early retirement incentive program to certain employees during 1998.

The following are the weighted-average assumptions utilized as of December 31 of the year indicated.

	PENSION BENEFITS		OTHER POSTRETIREMENT BENEFITS	
	1999	1998	1999	1998
Discount rate	8%	7%	8%	7%
Expected return on plan assets	10	10	10	10
Expected return on plan assets (after-tax)	N/A	N/A	6	6
Rate of compensation increase	5	5	N/A	N/A

The annual assumed rate of increase in the health care cost trend rate for 2000 is 9 percent increasing to 10 percent in 2001, and systematically decreasing to 5 percent by 2008.

The various nonpension postretirement benefit plans which Williams sponsors provide for retiree contributions and contain other cost-sharing features such as deductibles and coinsurance. The accounting for

these plans anticipates future cost-sharing changes to the written plans that are consistent with Williams' expressed intent to increase the retiree contribution rate annually, generally in line with health care cost increases, except for certain retirees whose premiums are fixed.

The health care cost trend rate assumption has a significant effect on the amounts reported. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-PERCENTAGE-POINT INCREASE	1-PERCENTAGE-POINT DECREASE
	(MILLIONS)	
Effect on total of service and interest cost components	$ 6.1	$ (4.9)
Effect on postretirement benefit obligation	59.6	(48.7)

The amount of postretirement benefit costs deferred as a regulatory asset at December 31, 1999 and 1998, is $91 million and $101 million, respectively, and is expected to be recovered through rates over approximately 14 years.

Williams maintains various defined-contribution plans. Williams recognized costs of $46 million in 1999, $42 million in 1998 and $33 million in 1997 for these plans.

NOTE 10. INVENTORIES

	1999	1998
	(MILLIONS)	
Raw materials:		
Crude oil	$ 66.6	$ 43.2
Other	2.1	2.0
	68.7	45.2
Finished goods:		
Refined products	172.5	104.0
Natural gas liquids	83.9	58.6
General merchandise and communications equipment	116.0	92.8
	372.4	255.4
Materials and supplies	110.2	93.4
Natural gas in underground storage	77.5	95.7
Other	2.7	7.8
	$631.5	$497.5

As of December 31, 1999 and 1998, approximately 28 percent and 29 percent of inventories, respectively, were stated at fair value. As of December 31, 1999 and 1998, approximately 10 percent and 11 percent of inventories, respectively, were determined using the LIFO cost method. The remaining inventories were primarily determined using the average-cost method.

If inventories valued on the LIFO cost method at December 31, 1999 and 1998, were valued at current replacement cost, the amounts would increase by approximately $14 million and $13 million, respectively.

During 1999 and 1998, lower-of-cost or market reductions of approximately $6 million and $1 million, respectively, were recognized with respect to certain refined products inventories.

NOTE 11. PROPERTY, PLANT AND EQUIPMENT

	1999	1998
	(MILLIONS)	
Cost:		
Gas Pipeline	$ 8,468.7	$ 8,151.5
Energy Services:		
Energy Marketing & Trading	235.1	434.0
Exploration & Production	485.2	368.3
Midstream Gas & Liquids	4,102.1	3,808.0
Petroleum Services	2,805.1	2,114.7
Communications:		
Network	2,008.2	536.0
Broadband Media	184.2	144.5
Solutions	219.0	173.6
Strategic Investments	4.6	36.2
Other	737.6	439.5
	19,249.8	16,206.3
Accumulated depreciation and depletion	(4,094.3)	(3,621.0)
	$15,155.5	$12,585.3

Included in gross property, plant and equipment for 1999 is approximately $2.3 billion of construction in progress, primarily the communications network, which is not yet subject to depreciation.

Commitments for construction and acquisition of property, plant and equipment are approximately $1 billion at December 31, 1999. Included in this amount is $303 million for the purchase of optronics equipment from Nortel to be used in building the communications network pursuant to agreements with Nortel to purchase a total of $600 million in optronics equipment.

NOTE 12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Under Williams' cash-management system, certain subsidiaries' cash accounts reflect credit balances to the extent checks written have not been presented for payment. The amounts of these credit balances included in accounts payable are $220 million at December 31, 1999, and $124 million at December 31, 1998.

	1999	1998
	(MILLIONS)	
Accrued liabilities:		
Employee costs	$ 329.6	$ 259.6
Construction costs	271.3	7.0
Interest	204.1	127.0
Rate refunds	189.3	358.7
Deferred income	162.8	85.7
Taxes other than income taxes	158.3	127.4
Other	519.8	582.2
	$1,835.2	$1,547.6

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13. DEBT, LEASES AND BANKING ARRANGEMENTS

Notes payable

During 1999, Williams' commercial paper program, backed by a short-term credit facility, was increased to $1.4 billion. At December 31, 1999 and 1998, $1.2 billion and $903 million, respectively, of commercial paper was outstanding under the program. In addition, Williams has entered into various other short-term credit agreements with amounts outstanding totaling $143 million and $150 million at December 31, 1999 and 1998, respectively. The weighted-average interest rate on the outstanding short-term borrowings at December 31, 1999 and 1998, was 6.37 percent and 5.92 percent, respectively.

Debt

	WEIGHTED-AVERAGE INTEREST RATE*	DECEMBER 31, 1999	DECEMBER 31, 1998
		(MILLIONS)	
Revolving credit loans	7.0%	$ 525.0	$ 694.0
Debentures, 6.25% -- 10.25%, payable 2003 -- 2027(1)	6.9	1,105.2	1,105.1
Notes, 5.1% -- 10.875%, payable through 2022(2)	7.9	7,339.1	4,562.6
Notes, adjustable rate, payable through 2004	6.3	455.0	386.7
Other, payable through 2009	7.1	7.0	8.6
		9,431.3	6,757.0
Current portion of long-term debt		(196.0)	(390.6)
		$9,235.3	$6,366.4

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* At December 31, 1999, including the effects of interest-rate swaps.

(1) $200 million, 7.08% debentures, payable 2026, are subject to redemption at par at the option of the debtholder in 2001.

(2) $300 million, 5.95% notes, payable 2010, and $240 million, 6.125% notes, payable 2012, are subject to redemption at par at the option of the debtholder in 2000 and 2002, respectively.

For financial statement reporting purposes at December 31, 1999, $404 million in obligations which would have otherwise been classified as current debt obligations have been classified as non-current based on Williams' intent and ability to refinance on a long-term basis. Williams' issuance in January 2000 of $500 million of adjustable rate notes due 2001 is sufficient to complete these refinancings.

In September 1999, Williams' communications business, Williams Communications Group, Inc. (WCG), entered into a $1.05 billion long-term credit agreement. Terms of the credit agreement contain restrictive covenants limiting the transfer of funds to Williams (parent), including the payment of dividends and repayment of intercompany borrowings by WCG to Williams (parent). At December 31, 1999, no amounts were outstanding under this facility. Interest rates vary with current market conditions.

Under the terms of Williams' $1 billion credit agreement, Northwest Pipeline, Transcontinental Gas Pipe Line and Texas Gas Transmission have access to various amounts of the facility, while Williams (parent) has access to all unborrowed amounts. Interest rates vary with current market conditions.

During 1999, WCG issued $2 billion in debt obligations consisting of $500 million in 10.7 percent notes due 2007 and $1.5 billion of 10.875 percent notes due 2009, and Williams issued $700 million in 7.625 percent notes due 2019.

Interest-rate swaps with a notional value of $1.2 billion are currently being utilized to convert certain fixed-rate debt obligations, included in the preceding table, to variable-rate obligations resulting in an effective weighted-average floating rate of 5.78 percent at December 31, 1999.

Certain interest-rate swap agreements relating to Kern River, which preceded the January 1996 purchase of Kern River by Williams and the subsequent Kern River debt refinancing, remain outstanding. In 1996, Kern River entered into additional interest-rate swap agreements to manage the exposure from the original interest-rate swap agreements. As described in Note 1, these interest-rate swap agreements are not designated with the Kern River debt, but when combined with interest on the debt obligations, Kern River's effective interest rate is 8.5 percent.

Terms of certain subsidiaries' borrowing arrangements with lenders limit the transfer of funds to Williams (parent). At December 31, 1999, approximately $3.3 billion of net assets of consolidated subsidiaries was restricted. In addition, certain equity method investees' borrowing arrangements and foreign government regulations limit the amount of dividends or distributions to Williams. Restricted net assets of equity method investees was approximately $176 million at December 31, 1999.

Aggregate minimum maturities and sinking-fund requirements, considering the reclassification of current obligations as previously described, for each of the next five years are as follows:

	(MILLIONS)
2000	$ 196
2001	1,502
2002	1,680
2003	280
2004	550

Cash payments for interest (net of amounts capitalized) are as follows: 1999 -- $503 million; 1998 -- $414 million; and 1997 -- $450 million.

Leases

Future minimum annual rentals under non-cancelable operating leases as of December 31, 1999, are payable as follows:

	OFF-NETWORK CAPACITY AND EQUIPMENT	OTHER	TOTAL
	(MILLIONS)		
2000	$ 302.2	$122.2	$ 424.4
2001	280.7	105.0	385.7
2002	220.6	93.5	314.1
2003	198.3	66.8	265.1
2004	162.0	55.5	217.5
Thereafter	235.8	365.2	601.0
	$1,399.6	$808.2	$2,207.8

Total rent expense was $358 million in 1999, $245 million in 1998 and $167 million in 1997. Included in this amount is total capacity expense incurred from leasing from a third party's network (off-network capacity expense) of $201 million in 1999, $111 million in 1998, and $69 million in 1997.

During 1998, Williams entered into an operating lease agreement covering a portion of its fiber-optic network. The total estimated cost of the network assets to be covered by the lease agreement is $750 million.

The lease term includes an interim term, during which the covered network assets will be constructed and will end April 30, 2000, and a base term. The interim and base terms are expected to total five years and, if renewed, could total seven years. Under the terms of the lease agreement, Williams cannot sublease the assets without the prior written consent of the lessor. Through December 31, 1999, Williams has not requested nor has the lessor granted such consent.

Williams has an option to purchase the covered network assets during the lease term at an amount approximating the lessor's cost. Williams provides a residual value guarantee equal to a maximum of 89.9 percent of the transaction. The residual value guarantee is reduced by the present value of actual lease payments. In the event that Williams does not exercise its purchase option, Williams expects the fair market value of the covered network assets to substantially reduce Williams' obligation under the residual value guarantee. Williams' disclosures for future minimum annual rentals under noncancelable operating leases do not include amounts for the residual value guarantee.

NOTE 14. PREFERRED OWNERSHIP INTERESTS OF SUBSIDIARIES

In December 1999, Williams formed Williams Capital Trust I (Trust) which issued $175 million in zero coupon Williams' obligated mandatorily redeemable preferred securities. The preferred securities must be redeemed by the Trust no later than March 2002. The redemption price of the securities accretes until redeemed and entitles the investor to a fixed-rate annual yield of 7.92 percent. Proceeds from the sale of the securities were used by the Trust to purchase Williams' zero-coupon subordinated debentures whose yield and maturity terms mirror those of the preferred securities issued by the Trust. The Trust's sole assets are the Williams zero-coupon subordinated debentures. The proceeds of the transaction generated funds for Williams' general corporate use. Williams guarantees the obligations of the Trust related to its preferred securities.

During 1998, Williams formed separate legal entities and contributed various assets to a newly-formed limited partnership, Castle Associates L.P. (Castle), and to a limited liability company, Williams Risk Holdings Company, LLC (Holdings), as a part of transactions that generated funds for Williams' general corporate use. Outside investors obtained from Williams non-controlling preferred interests in the newly formed entities for $335 million through purchase and/or contribution. The assets and liabilities of Castle and Holdings are consolidated for financial reporting purposes. The transactions did not result in any gain or loss for Williams.

The preferred interest holders in both Castle and Holdings are entitled to a priority return based on a variable-rate structure, currently ranging from approximately seven to 10 percent, in addition to their participation in the operating results of the partnership and LLC.

The Castle limited-partnership agreement and associated operating documents included certain restrictive covenants and guarantees of Williams and certain of its subsidiaries. These restrictions are similar to those in the Williams' credit agreement and other debt instruments.

NOTE 15. ISSUANCE OF SUBSIDIARY'S COMMON STOCK

In October 1999, Williams' communications business, WCG, completed an initial public offering of approximately 34 million shares of its common stock at $23 per share for proceeds of approximately $738 million. In addition, approximately 34 million shares of common stock were privately sold in concurrent investments by SBC Communications Inc., Intel Corporation, and Telefonos de Mexico S.A. de C.V. for proceeds of $738.5 million. These transactions resulted in a reduction of Williams' ownership interest in WCG from 100 percent to 85.3 percent. In accordance with Williams' policy regarding the issuance of subsidiary's common stock, Williams recognized a $1.17 billion increase to Williams' capital in excess of par, a $3.4 million decrease to accumulated other comprehensive income, and an initial increase of $307 million to Williams' minority interest liability. The issuances of stock by WCG were not subject to federal income taxes.

NOTE 16. STOCKHOLDERS' EQUITY

During 1999, each remaining share of the $3.50 preferred stock was converted at the option of the holder into 4.6875 shares of Williams common stock prior to the redemption date. In September 1997, the remaining shares of $2.21 cumulative preferred stock were redeemed by Williams at par ($25) for a total of $18.5 million.

In 1996, the Williams' board of directors adopted a Stockholder Rights Plan (the Rights Plan). Under the Rights Plan, each outstanding share of Williams common stock has one-third of a preferred stock purchase right attached. Under certain conditions, each right may be exercised to purchase, at an exercise price of $140 (subject to adjustment), one two-hundredth of a share of junior participating preferred stock. The rights may be exercised only if an Acquiring Person acquires (or obtains the right to acquire) 15 percent or more of Williams common stock; or commences an offer for 15 percent or more of Williams common stock; or the board of directors determines an Adverse Person has become the owner of 10 percent or more of Williams common stock. The rights, which do not have voting rights, expire in 2006 and may be redeemed at a price of $.01 per right prior to their expiration, or within a specified period of time after the occurrence of certain events. In the event a person becomes the owner of more than 15 percent of Williams common stock or the board of directors determines that a person is an Adverse Person, each holder of a right (except an Acquiring Person or an Adverse Person) shall have the right to receive, upon exercise, Williams common stock having a value equal to two times the exercise price of the right. In the event Williams is engaged in a merger, business combination or 50 percent or more of Williams' assets, cash flow or earnings power is sold or transferred, each holder of a right (except an Acquiring Person or an Adverse Person) shall have the right to receive, upon exercise, common stock of the acquiring company having a value equal to two times the exercise price of the right.

NOTE 17. STOCK-BASED COMPENSATION

Williams has several plans providing for common-stock-based awards to employees and to non-employee directors. The plans permit the granting of various types of awards including, but not limited to, stock options, stock-appreciation rights, restricted stock and deferred stock. Awards may be granted for no consideration other than prior and future services or based on certain financial performance targets being achieved. The purchase price per share for stock options and the grant price for stock-appreciation rights may not be less than the market price of the underlying stock on the date of grant. Depending upon terms of the respective plans, stock options generally become exercisable after three or five years, subject to accelerated vesting if certain future stock prices or if specific financial performance targets are achieved. Stock options expire 10 years after grant. At December 31, 1999, 49.4 million shares of Williams common stock were reserved for issuance pursuant to existing and future stock awards, of which 24.7 million shares were available for future grants (18.7 million at December 31, 1998).

Certain of these plans have stock option loan programs for the participants, whereby, at the time of the option exercise the participant may elect to receive a loan from Williams in an amount limited to 80 percent (or 50 percent under one plan) of the market value of the shares associated with the exercise. A portion of the stock acquired is held as collateral over the term of the loan, which can be three or five years. Interest rates are based on the minimum applicable federal rates, and interest is paid annually. The amount of loans outstanding at December 31, 1999 and 1998, totaled $42.1 million and $35.7 million, respectively.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following summary reflects stock option activity for Williams common stock and related information for 1999, 1998 and 1997:

	1999		1998		1997	
	OPTIONS (MILLIONS)	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS (MILLIONS)	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS (MILLIONS)	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding -- beginning of year	21.7	$20.73	35.2	$17.29	29.2	$14.18
Granted	5.1	39.62	4.7	31.96	12.9	22.57
Exercised	(3.7)	18.81	(4.9)	12.56	(6.1)	13.46
MAPCO option conversions	--	--	(12.9)	18.38	--	--
Canceled	(.3)	36.50	(.4)	28.74	(.8)	18.32
Outstanding -- end of year	22.8	$25.03	21.7	$20.73	35.2	$17.29
Exercisable at end of year	21.9	$24.50	17.3	$17.85	18.8	$13.83

The following summary provides information about Williams stock options outstanding and exercisable at December 31, 1999:

	STOCK OPTIONS OUTSTANDING			STOCK OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	OPTIONS (MILLIONS)	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	OPTIONS (MILLIONS)	WEIGHTED-AVERAGE EXERCISE PRICE
$4.62 to $34.37	17.9	$21.02	7.0 years	17.9	$21.00
$35.81 to $45.72	4.9	39.71	9.4 years	4.0	40.19
Total	22.8	$25.03	7.5 years	21.9	$24.50

In conjunction with the initial public offering of WCG stock, options for Williams common stock granted in 1999 and 1998 under a WCG plan established in 1998 were converted from options for Williams common stock to options for WCG common stock. The conversion occurred when market prices for Williams and WCG common stock were $37.63 per share and $23.00 per share, respectively. In accordance with APB Opinion No. 25, this conversion resulted in a new measurement date and related pre-tax expense of approximately $.9 million was recognized in 1999. The remaining value of the option conversion will be amortized over the various vesting periods of the converted options. The following summary provides information for the WCG plan stock option activity and related information for 1999 and 1998:

	1999				1998	
	OPTIONS FOR WILLIAMS COMMON STOCK (MILLIONS)	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS FOR WCG COMMON STOCK (MILLIONS)	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS FOR WILLIAMS COMMON STOCK (MILLIONS)	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding -- beginning of year	.5	$30.50	--	$ --	--	$ --
Granted	--	--	7.6	23.05	.5	30.50
Exercised	--	--	--	--	--	--
Conversions of options	(.4)	30.71	.7	18.87	--	--
Canceled	(.1)	31.81	(.3)	22.60	--	--
Outstanding -- end of year	--	$ --	8.0	$22.70	.5	$30.50
Exercisable at end of year	--	$ --	.3	$20.86	--	$ --

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following summary provides information about WCG stock options outstanding and exercisable at December 31, 1999:

RANGE OF EXERCISE PRICES	STOCK OPTIONS OUTSTANDING: OPTIONS (MILLIONS)	STOCK OPTIONS OUTSTANDING: WEIGHTED-AVERAGE EXERCISE PRICE	STOCK OPTIONS OUTSTANDING: WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	STOCK OPTIONS EXERCISABLE: OPTIONS (MILLIONS)	STOCK OPTIONS EXERCISABLE: WEIGHTED-AVERAGE EXERCISE PRICE
$14.00 to $20.13	.6	$18.68	8.5 years	.2	$18.73
$22.56 to $28.94	7.4	23.05	9.8 years	.1	23.02
Total	8.0	$22.70	9.7 years	.3	$20.86

The estimated fair value at the date of grant of options for Williams common stock granted in 1999, 1998 and 1997, using the Black-Scholes option pricing model, is as follows:

	1999	1998	1997
Weighted-average grant date fair value of options for Williams common stock granted during the year	$11.90	$8.19	$7.15
Assumptions:			
Dividend yield	1.5%	2.0%	1.7%
Volatility	28%	25%	26%
Risk-free interest rate	5.6%	5.3%	6.1%
Expected life (years)	5.0	5.0	5.0

In addition, the fair value at the date of grant for WCG options granted was estimated using a Black-Scholes option pricing model. For those options for Williams common stock which were converted to options for WCG common stock, the fair value was estimated at the date of conversion using the Black-Scholes option pricing model. The option pricing model used the following weighted-average assumptions: expected life of the stock options of approximately 5 years; volatility of the expected market price of WCG common stock of 60 percent; risk-free interest rate of 6 percent; and no expected future dividend yield. The weighted-average grant date fair value and the weighted-average conversion date fair value for WCG options were $13.10 and $14.21, respectively.

Pro forma net income and earnings per share, assuming Williams had applied the fair-value method of SFAS No. 123, "Accounting for Stock-Based Compensation" in measuring compensation cost beginning with 1997 employee stock-based awards, are as follows:

	1999 PRO FORMA	1999 REPORTED	1998 PRO FORMA	1998 REPORTED	1997 PRO FORMA	1997 REPORTED
Net income (Millions)	$168.1	$221.4	$68.0	$122.3	$314.1	$351.4
Earnings per share:						
Basic	$ .38	$ .50	$ .14	$ .27	$ .74	$ .83
Diluted	$ .37	$ .50	$ .14	$ .27	$ .73	$ .81

Pro forma amounts for 1999 include the remaining total compensation expense from Williams awards made in 1998 and the total compensation expense from certain Williams awards made in 1999, as these awards fully vested in 1999 as a result of the accelerated vesting provisions. In addition, 1999 pro forma amounts include compensation expense related to the WCG plan awards and conversions in 1999. Pro forma amounts for 1999 include $47.1 million for Williams awards and $6.2 million for WCG awards.

Pro forma amounts for 1998 include the previously unrecognized compensation expense related to the MAPCO options converted at the time of the merger and the remaining total compensation expense from the awards made in 1997, as these awards fully vested in 1998 as a result of the accelerated vesting provisions. Pro forma amounts for 1997 include compensation expense from 78 percent of the awards made in 1996, as these awards fully vested in 1997 as a result of the accelerated vesting provisions. Since compensation expense from stock options is recognized over the future years' vesting period for pro forma disclosure purposes, and additional awards generally are made each year, pro forma amounts may not be representative of future years' amounts.

Williams granted approximately 260,000 and 800,000 deferred Williams shares in 1999 and 1998, respectively. Deferred shares are valued at the date of award, and the weighted-average grant date fair value of the shares granted was $34.84 in 1999 and $31.62 in 1998. Approximately $13 million and $5 million was recognized as expense for deferred shares of Williams in 1999 and 1998, respectively. Expense related to deferred shares is recognized in the performance year or over the vesting period, depending on the terms of the awards. In 1999 and 1998, Williams issued approximately 125,000 and 119,000, respectively, of the deferred shares previously granted. Grants made in 1997 were not significant.

In conjunction with the WCG initial public offering, 255,000 deferred shares granted under the Williams and WCG plans in 1998 were converted from Williams to WCG stock when the market prices were $37.63 and $23.00, respectively. At that time 25 percent of the shares became fully vested. In accordance with APB opinion No. 25, this conversion resulted in a new measurement date, and accordingly, the related expense of approximately $2.2 million is included in 1999. The remaining value of the deferred share conversion will be amortized over the vesting periods of the converted stock.

NOTE 18. FINANCIAL INSTRUMENTS

Fair-value methods

The following methods and assumptions were used by Williams in estimating its fair-value disclosures for financial instruments:

Cash and cash equivalents and notes payable: The carrying amounts reported in the balance sheet approximate fair value due to the short-term maturity of these instruments.

Short-term investments, marketable equity securities and Ferrellgas Partners L.P. senior common units: In accordance with SFAS No. 115, these securities are classified as available-for-sale and are reported at fair value, with net unrealized appreciation or depreciation reported as a component of other comprehensive income.

Notes and other non-current receivables: For those notes with interest rates approximating market or maturities of less than three years, fair value is estimated to approximate historically recorded amounts.

Investments-cost and advances to affiliates: Fair value is estimated to approximate historically recorded amounts as the investments are primarily in non-publicly traded foreign companies for which it is not practicable to estimate fair value of these investments.

Long-term debt: The fair value of Williams' long-term debt is valued using indicative year-end traded bond market prices for publicly traded issues, while private debt is valued based on the prices of similar securities with similar terms and credit ratings. At December 31, 1999 and 1998, 79 percent and 74 percent, respectively, of Williams' long-term debt was publicly traded. Williams used the expertise of an outside investment banking firm to estimate the fair value of long-term debt.

Williams obligated mandatorily redeemable preferred securities of Trust: Fair value at December 31, 1999, is estimated to approximate carrying value as the securities were issued in December 1999.

Interest-rate swaps: Fair value is determined by discounting estimated future cash flows using forward-interest rates derived from the year-end yield curve. Fair value was calculated by the financial institutions that are the counterparties to the swaps.

Energy-related trading and hedging: Energy-related trading includes forwards, options, swaps and purchase and sales commitments. Energy-related hedging includes futures, options and swaps. Fair value reflects management's estimates using valuation techniques that reflect the best information available in the circumstances. This information includes various factors such as quoted market prices, estimates of market prices in absence of quoted market prices, contractual volumes, estimated volumes under option and other arrangements that result in varying volumes, other contract terms, liquidity of the market in which the contract is transacted, credit considerations, time value and volatility factors underlying the positions.

Carrying amounts and fair values of Williams' financial instruments

ASSET (LIABILITY)	1999 CARRYING AMOUNT	1999 FAIR VALUE	1998 CARRYING AMOUNT	1998 FAIR VALUE
	(MILLIONS)			
Cash and cash equivalents	$ 1,092.0	$ 1,092.0	$ 503.3	$ 503.3
Short-term investments	1,434.8	1,434.8	--	--
Notes and other non-current receivables	52.1	52.1	45.2	45.2
Investments-cost and advances to affiliates	773.0	773.0	401.0	401.0
Marketable equity securities	288.1	288.1	77.0	77.0
Ferrellgas Partners L.P. senior common units	175.7	175.7	--	--
Notes payable	(1,378.8)	(1,378.8)	(1,052.7)	(1,052.7)
Long-term debt, including current portion	(9,431.3)	(9,349.1)	(6,757.0)	(6,896.2)
Williams obligated mandatorily redeemable preferred securities of Trust	(175.5)	(175.5)	--	--
Interest-rate swaps	(29.0)	(47.5)	(50.7)	(45.6)
Energy-related trading:				
Assets	555.9	555.9	548.1	548.1
Liabilities	(449.1)	(449.1)	(491.6)	(491.6)
Energy-related hedging:				
Assets	--	23.6	--	7.0
Liabilities	(.7)	(8.2)	(.7)	(10.2)

The preceding asset and liability amounts for energy-related hedging represent unrealized gains or losses and do not include the related deferred amounts.

The 1999 average fair value of the energy-related trading assets and liabilities is $565 million and $507 million, respectively. The 1998 average fair value of the energy-related trading assets and liabilities is $485 million and $518 million, respectively.

Williams has recorded liabilities of $18 million at December 31, 1999 and 1998, for certain guarantees that represent the estimated fair value of these financial instruments.

Off-balance-sheet credit and market risk

Williams is a participant in the following transactions and arrangements that involve financial instruments that have off-balance-sheet risk of accounting loss. It is not practicable to estimate the fair value of these off-balance-sheet financial instruments because of their unusual nature and unique characteristics.

In 1997, Williams entered into agreements to sell, on an ongoing basis, certain of its accounts receivable. At December 31, 1999 and 1998, $324 million and $302 million have been sold, respectively.

In connection with the 1995 sale of Williams' network services operations, Williams has been indemnified by LDDS against any losses related to retained guarantees of $91 million and $113 million at December 31, 1999 and 1998, respectively, for lease rental obligations.

Williams has issued other guarantees and letters of credit with off-balance-sheet risk that total approximately $175 million and $83 million at December 31, 1999 and 1998, respectively. Williams believes it will not have to perform under these agreements, because the likelihood of default by the primary party is remote and/or because of certain indemnifications received from other third parties.

Energy trading activities

Williams, through Energy Marketing & Trading, provides price-risk management services associated with the energy industry to its customers. These services are provided through a variety of energy contracts including forward contracts, futures contracts, option contracts, swap agreements and purchase and sale commitments. See Note 1 for a description of the accounting for these trading activities. The net gain from trading activities was $214.0 million, $112.6 million and $125.8 million in 1999, 1998 and 1997, respectively.

Energy Marketing & Trading enters into contracts which involve physical delivery of an energy commodity. Prices under these contracts are both fixed and variable. These contracts involve both firm commitments requiring fixed volumes and option and other arrangements that result in varying volumes. Swap agreements call for Energy Marketing & Trading to make payments to (or receive payments from) counterparties based upon the differential between a fixed and variable price or variable prices for different locations. Energy Marketing & Trading buys and sells financial option contracts which give the buyer the right to exercise the option and receive the difference between a predetermined strike price and a market price at the date of exercise. The prices for forward, swap, option and physical contracts consider exchange quoted prices or management's estimates based on the best information available. Energy Marketing & Trading also enters into futures contracts, which are commitments to either purchase or sell a commodity at a future date for a specified price and are generally settled in cash, but may be settled through delivery of the underlying commodity. The market prices for futures contracts are based on exchange quotations.

Energy Marketing & Trading is subject to market risk from changes in energy commodity market prices, the portfolio position of its financial instruments and physical commitments, the liquidity of the market in which the contract is transacted, changes in interest rates and credit risk.

Energy Marketing & Trading manages market risk on a portfolio basis through established trading policy guidelines which are monitored on an ongoing basis. Energy Marketing & Trading attempts to minimize credit-risk exposure to trading counterparties and brokers through formal credit policies and monitoring procedures. In the normal course of business, collateral is not required for financial instruments with credit risk.

The notional quantities for trading activities at December 31 are as follows:

	1999		1998	
	PAYOR	RECEIVER	PAYOR	RECEIVER
Fixed price:				
Natural gas (TBtu)	1,933.0	2,019.0	1,310.1	1,413.9
Refined products, NGLs and crude (MMbbls)	474.5	436.9	185.2	167.5
Power (Terawatt Hrs)	35.3	47.1	28.6	23.6
Variable price:				
Natural gas (TBtu)	2,523.2	2,243.3	1,749.4	1,537.4
Refined products, NGLs and crude (MMbbls)	2.4	3.9	48.5	44.8

The net cash inflows related to these contracts at December 31, 1999 and 1998, were $76 million and $96 million, respectively. At December 31, 1999, the cash inflows extend primarily through 2010.

Concentration of credit risk

Williams' cash equivalents and short-term investments consist of high-quality securities placed with various major financial institutions with high credit ratings. Williams' investment policy limits its credit exposure to any one issuer/obligor.

At December 31, 1999 and 1998, approximately 21 percent and 33 percent, respectively, of receivables are for the sale or transportation of natural gas and related products or services. Approximately 31 percent and 19 percent of receivables at December 31, 1999 and 1998, respectively, are for the sale or transportation of petroleum products. Approximately 31 percent and 39 percent of receivables at December 31, 1999 and 1998, respectively, are for communications and related services. Approximately 12 percent and 5 percent of receivables at December 31, 1999 and 1998, respectively, are from power and related services. Natural gas customers include pipelines, distribution companies, producers, gas marketers and industrial users primarily located in the eastern, northwestern and midwestern United States. Petroleum products customers include wholesale, commercial, governmental, industrial and individual consumers and independent dealers located primarily in Alaska and the midsouth and southeastern United States. Power customers include the California Power Exchange, other power marketers and utilities located throughout the majority of the United States. Communications serves a wide range of customers including numerous corporations, none of which is individually significant to its business. As a general policy, collateral is not required for receivables, but customers' financial condition and credit worthiness are evaluated regularly.

NOTE 19. CONTINGENT LIABILITIES AND COMMITMENTS

Rate and regulatory matters and related litigation

Williams' interstate pipeline subsidiaries, including Williams Pipe Line, have various regulatory proceedings pending. As a result of rulings in certain of these proceedings, a portion of the revenues of these subsidiaries has been collected subject to refund. The natural gas pipeline subsidiaries have accrued approximately $189 million for potential refund as of December 31, 1999.

In 1997, the Federal Energy Regulatory Commission (FERC) issued orders addressing, among other things, the authorized rates of return for three of the Williams interstate natural gas pipeline subsidiaries. All of the orders involve rate cases that became effective between 1993 and 1995 and, in each instance, these cases have been superseded by more recently filed rate cases. In the three orders, the FERC continued its practice of utilizing a methodology for calculating rates of return that incorporates a long-term growth rate component. However, the long-term growth rate component used by the FERC is now a projection of U.S. gross domestic product growth rates. Generally, calculating rates of return utilizing a methodology which includes a long-term

growth rate component results in rates of return that are lower than they would be if the long-term growth rate component were not included in the methodology. Each of the three pipeline subsidiaries challenged its respective FERC order in an effort to have the FERC change its rate-of-return methodology with respect to these and other rate cases. On January 30, 1998, the FERC convened a public conference to consider, on an industry-wide basis, issues with respect to pipeline rates of return. In July 1998, the FERC issued orders in two of the three pipeline subsidiary rate cases, again modifying its rate-of-return methodology by adopting a formula that gives less weight to the long-term growth component. Certain parties appealed the FERC's action, because the most recent formula modification results in somewhat higher rates of return compared to the rates of return calculated under the FERC's prior formula. In June and July 1999, the FERC applied the new methodology in the third pipeline subsidiary rate case, as well as in a fourth case involving the same pipeline subsidiary. As a result of these orders and developments in certain other regulatory proceedings in the second quarter, each of the three gas pipeline subsidiaries made reductions to its accrued liability for rate refunds to reflect application of the new rate-of-return methodology. In February 2000, the U.S. Court of Appeals for the D.C. Circuit denied the appeal in one of these cases. Reductions for the pipelines totaled approximately $51 million of which $38.2 million is included in Gas Pipeline's segment revenues and segment profit for 1999. In addition, $2.7 million is included in Midstream Gas & Liquids' segment revenues and segment profit for 1999, as a result of its management of certain regulated gathering facilities. The balance is included as a reduction of interest accrued for 1999.

As a result of FERC Order 636 decisions in prior years, each of the natural gas pipeline subsidiaries has undertaken the reformation or termination of its respective gas supply contracts. None of the pipelines has any significant pending supplier take-or-pay, ratable take or minimum take claims. During 1999, Williams Gas Pipelines Central (Central) reached an agreement with its customers, state commissions and FERC staff concerning recovery of certain gas supply realignment costs which arose from supplier take-or-pay contracts.

During 1999, Central assigned its obligations under its largest remaining gas supply contract to an unaffiliated third party and paid the third party $100 million. Central also agreed to pay the third party a total of $18 million in installments over the next five years, all of which had been accrued in prior years. Central received indemnities from the third party and a release of its obligations under the contract. Central assigned two smaller contracts to an affiliate effective February 1, 1999. As a result of these assignments, Central has no remaining above-market price gas contracts.

In 1998, as a result of negotiations concerning the portion of the resolution costs which could be recovered from customers, Central expensed $58 million of costs previously expected to be recovered and capitalized as a regulatory asset. The charge represented an estimate of natural gas costs that will not be recoverable from customers. In 1999, Central filed with the FERC to recover all costs related to the three contracts. In 1999, Central reached an agreement in principle with the FERC staff, the state commissions, and its customers on all issues related to recovery of Central's remaining take-or-pay and gas supply realignment costs. The settlement resolved all prudence, eligibility and absorption issues at a level consistent with Central's established accruals and provided that Central would be allowed to recover the costs allocated to its customers by means of a direct bill to be paid, in some instances, over time. The settlement was effective November 1, 1999. On December 30, 1999, Central rendered direct bills to its customers in accordance with the terms of the settlement.

In September 1995, Texas Gas received FERC approval of a settlement regarding Texas Gas' recovery of gas supply realignment costs. Through December 31, 1999, Texas Gas has paid approximately $76 million and expects to pay no more than a total of $80 million for gas supply realignment costs, primarily as a result of contract terminations. Texas Gas has recovered approximately $66 million, plus interest, in gas supply realignment costs.

On July 29, 1998, the FERC issued a Notice of Proposed Rulemaking (NOPR) and a Notice of Inquiry (NOI), proposing revisions to regulatory policies for interstate natural gas transportation service. In the

NOPR, the FERC proposes to eliminate the rate cap on short-term transportation services and implement regulatory policies that are intended to maximize competition in the short-term transportation market, mitigate the ability of firms to exercise residual monopoly power and provide opportunities for greater flexibility in the provision of pipeline services and to revise certain other rate and certificate policies. In the NOI, the FERC seeks comments on its pricing policies in the existing long-term market and pricing policies for new capacity. Williams filed comments on the NOPR and NOI in the second quarter of 1999. On February 9, 2000, the FERC issued a final rule, Order 637, in response to the comments received on the NOPR and NOI. The FERC adopts in Order 637 certain policies that it finds are necessary to adjust its current regulatory model to the needs of the evolving markets, but determines that any fundamental changes to its regulatory policy, which changes were raised and commented on in the NOPR and NOI, will be considered after further study and evaluation of the evolving marketplace. Most significantly, in Order 637, the FERC (i) revises its pricing policy to waive, for a two-year period, the maximum price ceilings for short-term releases of capacity of less than one year, and (ii) permits pipelines to file proposals to implement seasonal rates for short-term services and term-differentiated rates, subject to certain requirements including the requirement that a pipeline be limited to recovering its annual revenue requirement under those rates.

In fourth-quarter 1999, based on developments in regulatory proceedings involving Transcontinental Gas Pipe Line and on advice from counsel, Transcontinental Gas Pipe Line reduced its accrued liability for rate refunds by $21 million to reflect its conclusion that the risk associated with one of the issues in this proceeding has been eliminated. The $21 million reduction is included in Gas Pipeline's segment revenues and segment profit for 1999. Transcontinental Gas Pipe Line is continuing to accrue amounts to account for other issues that may ultimately affect Transcontinental Gas Pipe Line's rate of return in this proceeding. Transcontinental Gas Pipe Line believes the remaining liability is adequate for any refunds that may be required.

On July 15, 1998, Williams Pipe Line (WPL) received an Order from the FERC which affirmed an administrative law judge's 1996 initial decision regarding rate-making proceedings for the period September 15, 1990, through May 1, 1992. The FERC has ruled that WPL did not meet its burden of establishing that its transportation rates in its 12 noncompetitive markets were just and reasonable for the period and has ordered refunds. WPL accrued $15.5 million, including interest, in second-quarter 1998, for potential refunds to customers for the issues described above. On May 20, 1999, WPL submitted an uncontested offer of settlement to the presiding administrative law judge that would resolve all outstanding rate issues on WPL from September 1, 1990, to the present. This settlement was certified to the FERC as uncontested on June 23, 1999. On October 13, 1999, the FERC approved the settlement without conditions. Based on this favorable settlement and FERC approval, $6.5 million of the original $15.5 million loss provision was reversed in 1999. The settlement became final and non-appealable on December 13, 1999.

Environmental matters

Since 1989, Texas Gas and Transcontinental Gas Pipe Line have had studies under way to test certain of their facilities for the presence of toxic and hazardous substances to determine to what extent, if any, remediation may be necessary. Transcontinental Gas Pipe Line has responded to data requests regarding such potential contamination of certain of its sites. The costs of any such remediation will depend upon the scope of the remediation. At December 31, 1999, these subsidiaries had accrued liabilities totaling approximately $27 million for these costs.

Certain Williams subsidiaries, including Texas Gas and Transcontinental Gas Pipe Line, have been identified as potentially responsible parties (PRP) at various Superfund and state waste disposal sites. In addition, these subsidiaries have incurred, or are alleged to have incurred, various other hazardous materials removal or remediation obligations under environmental laws. Although no assurances can be given, Williams does not believe that these obligations or the PRP status of these subsidiaries will have a material adverse effect on its financial position, results of operations or net cash flows.

Transcontinental Gas Pipe Line, Texas Gas and Central have identified polychlorinated biphenyl (PCB) contamination in air compressor systems, soils and related properties at certain compressor station sites. Transcontinental Gas Pipe Line, Texas Gas and Central have also been involved in negotiations with the U.S. Environmental Protection Agency (EPA) and state agencies to develop screening, sampling and cleanup programs. In addition, negotiations with certain environmental authorities and other programs concerning investigative and remedial actions relative to potential mercury contamination at certain gas metering sites have been commenced by Central, Texas Gas and Transcontinental Gas Pipe Line. As of December 31, 1999, Central had accrued a liability for approximately $11 million, representing the current estimate of future environmental cleanup costs to be incurred over the next six to 10 years. Texas Gas and Transcontinental Gas Pipe Line likewise had accrued liabilities for these costs which are included in the $27 million liability mentioned above. Actual costs incurred will depend on the actual number of contaminated sites identified, the actual amount and extent of contamination discovered, the final cleanup standards mandated by the EPA and other governmental authorities and other factors. Texas Gas, Transcontinental Gas Pipe Line and Central have deferred these costs as incurred pending recovery through future rates and other means.

Transcontinental Gas Pipe Line received a letter stating that the U.S. Department of Justice (DOJ), at the request of the EPA, intends to file a civil action against Transcontinental Gas Pipe Line arising from its waste management practices at Transcontinental Gas Pipe Line's compressor stations and metering stations in 11 states from Texas to New Jersey. DOJ stated in the letter that its complaint will seek civil penalties and injunctive relief under federal environmental laws. DOJ and Transcontinental Gas Pipe Line are discussing a settlement. While no specific amount was proposed, DOJ stated that any settlement must include an appropriate civil penalty for the alleged violations. Transcontinental Gas Pipe Line cannot reasonably estimate the amount of its potential liability, if any, at this time. However, Transcontinental Gas Pipe Line believes it has substantially addressed environmental concerns on its system through ongoing voluntary remediation and management programs.

Energy Services (WES) also accrues environmental remediation costs for its natural gas gathering and processing facilities, petroleum products pipelines, retail petroleum, refining and propane marketing operations primarily related to soil and groundwater contamination. At December 31, 1999, WES and its subsidiaries had accrued liabilities totaling approximately $42 million. WES recognizes receivables related to environmental remediation costs based upon an estimate of amounts that will be reimbursed from state funds for certain expenses associated with underground storage tank problems and repairs. At December 31, 1999, WES and its subsidiaries had accrued receivables totaling $19 million.

Williams Field Services (WFS), a WES subsidiary, received a Notice of Violation (NOV) from the EPA in February 2000. WFS received a contemporaneous letter from the DOJ indicating that DOJ will also be involved in the matter. The NOV alleged violations of the Clean Air Act at a gas processing plant. WFS intends to defend this matter, but cannot reasonably estimate the amount of potential liability, if any, at this time. EPA, DOJ, and WFS have scheduled settlement negotiation meetings beginning in March 2000.

In connection with the 1987 sale of the assets of Agrico Chemical Company, Williams agreed to indemnify the purchaser for environmental cleanup costs resulting from certain conditions at specified locations, to the extent such costs exceed a specified amount. At December 31, 1999, Williams had approximately $13 million accrued for such excess costs. The actual costs incurred will depend on the actual amount and extent of contamination discovered, the final cleanup standards mandated by the EPA or other governmental authorities, and other factors.

Other legal matters

In connection with agreements to resolve take-or-pay and other contract claims and to amend gas purchase contracts, Transcontinental Gas Pipe Line and Texas Gas each entered into certain settlements with producers which may require the indemnification of certain claims for additional royalties which the producers

may be required to pay as a result of such settlements. As a result of such settlements, Transcontinental Gas Pipe Line is currently defending two lawsuits brought by producers. In one of the cases, a jury verdict found that Transcontinental Gas Pipe Line was required to pay a producer damages of $23.3 million including $3.8 million in attorneys' fees. Transcontinental Gas Pipe Line is pursuing an appeal. In the other case, a producer has asserted damages, including interest calculated through December 31, 1997, of approximately $6 million. Producers have received and may receive other demands, which could result in additional claims. Indemnification for royalties will depend on, among other things, the specific lease provisions between the producer and the lessor and the terms of the settlement between the producer and either Transcontinental Gas Pipe Line or Texas Gas. Texas Gas may file to recover 75 percent of any such additional amounts it may be required to pay pursuant to indemnities for royalties under the provisions of Order 528.

In connection with the sale of certain coal assets in 1996, MAPCO entered into a Letter Agreement with the buyer providing for indemnification by MAPCO for reductions in the price or tonnage of coal delivered under a certain pre-existing Coal Sales Agreement dated December 1, 1986. The Letter Agreement is effective for reductions during the period July 1, 1996, through December 31, 2002, and provides for indemnification for such reductions as incurred on a quarterly basis. On October 7, 1999, MAPCO settled buyer's claims for indemnification under the Letter Agreement and certain other unrelated claims in exchange for payment by MAPCO in the amount of $35 million which had been accrued in prior years.

In 1998, the United States Department of Justice informed Williams that Jack Grynberg, an individual, had filed claims in the United States District Court for the District of Colorado under the False Claims Act against Williams and certain of its wholly owned subsidiaries including Williams Gas Pipelines Central, Kern River Gas Transmission, Northwest Pipeline, Williams Gas Pipeline Company, Transcontinental Gas Pipe Line Corporation, Texas Gas, Williams Field Services Company and Williams Production Company. Mr. Grynberg has also filed claims against approximately 300 other energy companies and alleges that the defendants violated the False Claims Act in connection with the measurement and purchase of hydrocarbons. The relief sought is an unspecified amount of royalties allegedly not paid to the federal government, treble damages, a civil penalty, attorneys' fees, and costs. On April 9, 1999, the United States Department of Justice announced that it was declining to intervene in any of the Grynberg qui tam cases, including the action filed against the Williams entities in the United States District Court for the District of Colorado. On October 21, 1999, the Panel on Multi-District Litigation transferred all of the Grynberg qui tam cases, including the ones filed against Williams, to the United States District Court for the District of Wyoming for pre-trial purposes.

Shrier v. Williams was filed on August 4, 1999, in the U.S. District Court for the Northern District of Oklahoma. Oxford v. Williams was filed on September 3, 1999, in state court in Jefferson County, Texas. The Oxford complaint was amended to add an additional plaintiff on September 24, 1999. On October 1, 1999, the case was removed to the U.S. District Court for the Eastern District of Texas, Beaumont Division. Plaintiffs have filed a motion seeking to remand the case back to state court. In each lawsuit, the plaintiff seeks to bring a nationwide class action on behalf of all landowners on whose property the plaintiffs have alleged WCG installed fiber-optic cable without the permission of the landowner. The plaintiffs are seeking a declaratory ruling that WCG is trespassing, damages resulting from the alleged trespass, damages based on WCG's profits from use of the property and damages from alleged fraud. Relief requested by the plaintiff includes injunction against further trespass, actual and punitive damages, and attorneys' fees.

Williams believes that installation of the cable containing the single-fiber network that crosses over or near the named plaintiffs' land does not infringe on the plaintiffs' property rights. Williams also does not believe that the plaintiffs in these lawsuits have sufficient basis for certification of a class action. The proposed composition of the class in the Oxford lawsuit appears to include only landowners who would also be included in the class proposed in the Shrier suit.

Other communications carriers have been successfully challenged with respect to their rights to use railroad rights of way, which are also challenged by the plaintiffs in Shrier and Oxford. Approximately

15 percent of the WCG network is installed on railroad rights of way. In many areas, the railroad granting WCG the license holds full ownership of the land, in which case its license should be sufficient to give WCG valid rights to cross the property. In some states where the railroad is not the property owner but has an easement over the property, the law is unsettled as to whether a landowner's approval is required. WCG generally did not obtain landowner approval where the rights of way are located on railroad easements. In most states, WCG has eminent domain rights which WCG believes would limit the liability for any trespass damages. It is likely that WCG will be subject to other purported class action suits challenging the use of railroad or pipeline rights of way. WCG cannot quantify the impact of all such claims at this time.

In addition to the foregoing, various other proceedings are pending against Williams or its subsidiaries which are incidental to their operations.

Summary

While no assurances may be given, Williams, based on advice of counsel, does not believe that the ultimate resolution of the foregoing matters, taken as a whole and after consideration of amounts accrued, insurance coverage, recovery from customers or other indemnification arrangements, will have a materially adverse effect upon Williams' future financial position, results of operations or cash flow requirements.

Commitments

Energy Marketing & Trading has entered into certain contracts giving Williams the right to receive fuel conversion and certain other services for purposes of generating electricity. At December 31, 1999, annual estimated committed payments under these contracts range from approximately $20 million to $383 million, resulting in total committed payments over the next 23 years of approximately $7 billion.

Williams has also entered into an agreement giving Williams a 25 year right to use a portion of a third party's wireless local capacity. Williams will pay a total of $400 million over four years for this right and will amortize the total payments over the 25 year usage term. As of December 31, 1999, Williams has paid approximately $172 million.

See Note 11 for commitments for construction and acquisition of property, plant and equipment.

NOTE 20. RELATED PARTY TRANSACTIONS

Williams Consolidated Financial Statements include various transactions with related parties. Significant transactions are as follows.

Nortel charges Solutions LLC for certain corporate administrative expenses which are directly identifiable or allocable to Solutions LLC. Direct charges from Nortel for the years ended December 31, 1999, 1998 and 1997 were approximately $2 million, $11 million and $15 million, respectively. These costs are included in selling, general and administrative expenses and Solutions' segment loss.

Additionally, Solutions LLC purchased inventory from Nortel for use in equipment installations for $480 million and $468 million in 1999 and 1998, respectively, and $311 million for the period from April 30, 1997 (date on which Nortel became a related party) to December 31, 1997. Solutions LLC has a distribution agreement with Nortel that extends through December 2002. If for two consecutive years the percentage of Nortel products purchased by Solutions LLC falls below approximately 78 percent and the rate of growth of the purchase of Nortel products by Solution LLC during the two-year period is below that of other Nortel distributors, Nortel may require Williams to buy, or Williams may require Nortel to sell, Nortel's entire interest in Solutions LLC at market value.

In addition, Williams purchased from Nortel, optronics for use on the communications network for $226 million and $84 million in 1999 and 1998, respectively.

NOTE 21. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The table below presents changes in the components of accumulated other comprehensive income (loss).

	INCOME (LOSS)		
	UNREALIZED APPRECIATION (DEPRECIATION) ON SECURITIES	FOREIGN CURRENCY TRANSLATION	TOTAL
	(MILLIONS)		
Balance at December 31, 1996	$ --	$ --	$ --
1997 change:			
Pre-income tax amount	(3.9)	(.1)	(4.0)
Income tax benefit	1.5	--	1.5
Balance at December 31, 1997	(2.4)	(.1)	(2.5)
1998 change:			
Pre-income tax amount	39.4	(4.9)	34.5
Income tax expense	(15.3)	--	(15.3)
	24.1	(4.9)	19.2
Balance at December 31, 1998	21.7	(5.0)	16.7
1999 change:			
Pre-income tax amount	194.9	(17.9)	177.0
Income tax expense	(75.8)	--	(75.8)
Minority interest in other comprehensive income	(14.9)	(.1)	(15.0)
	104.2	(18.0)	86.2
Adjustment due to issuance of subsidiary's common stock	(5.8)	2.4	(3.4)
Balance at December 31, 1999	$120.1	$(20.6)	$ 99.5

NOTE 22. SEGMENT DISCLOSURES

Williams evaluates performance based upon segment profit or loss from operations which includes revenues from external and internal customers, equity earnings or losses, operating costs and expenses, depreciation, depletion and amortization and income or loss from investments. The accounting policies of the segments are the same as those described in Note 1, Summary of Significant Accounting Policies. Intersegment sales are generally accounted for as if the sales were to unaffiliated third parties, that is, at current market prices. As a result of the assumption of investment management activities within the operating segments, the definition of segment profit (loss) was modified in first-quarter 2000 to include income (loss) from investments resulting from the management of investments in equity instruments. This income (loss) from investments is reported in investing income in the Consolidated Statement of Income. The segment information has been restated to conform to this presentation.

Williams' reportable segments are strategic business units that offer different products and services. The segments are managed separately because each segment requires different technology, marketing strategies and industry knowledge. Other includes investments in international energy and communications-related ventures, as well as corporate operations.

Communications' 1998 and 1997 operating segment results have been restated as described in Note 1. Network includes those operations formerly reported as Network Services, as well as the operations of the Australian communications company which were previously reported in Other. Broadband Media includes operations principally located in the North America offering video, advertising distribution and other multimedia transmission services via terrestrial and satellite links for the broadcast industry, as well as

investments in broadband media companies. These operations and investments were previously reported in Network Applications. Solutions includes the operations previously reported as Communications Solutions, as well as a data systems integration and professional development company in Mexico previously reported in Network Applications. Strategic Investments consists of certain domestic and international companies and investments.

In addition, segment amounts within Energy Services have been restated to reflect the first-quarter 2000 transfer of certain Alaskan operations within Energy Services (See Note 1).

The following table reflects the reconciliation of operating income as reported on the Consolidated Statement of Income to segment profit, per the table on page F-64.

	1999			1998			1997		
	OPERATING INCOME (LOSS)	INCOME FROM INVESTMENTS	SEGMENT PROFIT (LOSS)	OPERATING INCOME (LOSS)	INCOME FROM INVESTMENTS	SEGMENT PROFIT (LOSS)	OPERATING INCOME (LOSS)	INCOME FROM INVESTMENTS	SEGMENT PROFIT (LOSS)
					(MILLIONS)				
Gas Pipeline	$697.3	--	$697.3	$610.4	--	$610.4	$ 614.7	--	$ 614.7
Energy Services	529.0	--	529.0	386.1	--	386.1	539.4	--	539.4
Communications	(318.2)	9.4	(308.8)	(193.0)	--	(193.0)	(58.1)	--	(58.1)
Other	8.4	--	8.4	2.5	--	2.5	11.4	--	11.4
Total Segments	916.5	$9.4	$925.9	806.0	$ --	$806.0	$1,107.4	$ --	$1,107.4
General Corporate Expenses	(67.9)			(89.2)			(95.1)		
Total Operating Income	$848.6			$716.8			$1,012.3		

The following geographic area data includes revenues from external customers based on product shipment origin and long-lived assets based upon physical location.

	1999	1998	1997
		(MILLIONS)	
Revenues from external customers:			
United States	$ 8,364.9	$ 7,488.2	$ 8,101.1
Other	261.2	181.0	140.5
	$ 8,626.1	$ 7,669.2	$ 8,241.6
Long-lived assets:			
United States	$15,248.2	$13,002.5	$12,010.5
Other	509.9	250.8	126.9
	$15,758.1	$13,253.3	$12,137.4

Long-lived assets are comprised of property, plant and equipment, goodwill and other intangible assets and certain other non-current assets.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONCLUDED)

	REVENUES							
	EXTERNAL CUSTOMERS	INTER-SEGMENT	EQUITY EARNINGS (LOSSES)	TOTAL	SEGMENT PROFIT (LOSS)	TOTAL ASSETS	EQUITY METHOD INVESTMENTS	ADDITIONS TO LONG-LIVED ASSETS
				(MILLIONS)				
1999								
Gas Pipeline	$1,762.7	$ 59.9	$ 9.0	$ 1,831.6	$ 697.3	$ 8,628.5	$211.9	$ 361.3
Energy Services								
Energy Marketing & Trading	1,890.4	(215.3)*	(.5)	1,674.6	105.0	3,209.7	1.9	82.8
Exploration & Production	50.2	139.9	--	190.1	39.8	618.6	--	148.5
Midstream Gas & Liquids	661.0	380.1	(12.1)	1,029.0	230.8	3,514.4	216.0	341.9
Petroleum Services	2,164.5	844.2	.5	3,009.2	166.1	2,588.7	107.0	715.7
Merger-related costs	--	--	--	--	(12.7)	--	--	--
	4,766.1	1,148.9	(12.1)	5,902.9	529.0	9,931.4	324.9	1,288.9
Communications								
Network	391.1	47.5	1.0	439.6	(154.6)	4,079.8	14.4	1,624.1
Broadband Media	161.3	1.5	--	162.8	(24.4)	348.0	--	36.2
Solutions	1,431.6	--	--	1,431.6	(65.4)	1,537.6	--	65.4
Strategic Investments	34.9	.7	(27.0)	8.6	(64.4)	412.5	42.6	2.8
	2,018.9	49.7	(26.0)	2,042.6	(308.8)	6,377.9	57.0	1,728.5
Other	78.4	40.1	(3.9)	114.6	8.4	6,629.3	121.3	294.8
Eliminations	--	(1,298.6)	--	(1,298.6)	--	(6,278.6)	--	--
Total	$8,626.1	$ --	$(33.0)	$ 8,593.1	$ 925.9	$25,288.5	$715.1	$3,673.5
1998								
Gas Pipeline	$1,633.5	$ 51.1	$ .2	$ 1,684.8	$ 610.4	$ 8,386.2	$ 8.9	$ 485.0
Energy Services								
Energy Marketing & Trading	1,678.3	(153.8)*	(6.7)	1,517.8	27.0	2,571.8	.8	27.3
Exploration & Production	33.5	105.8	--	139.3	27.2	484.1	--	58.1
Midstream Gas & Liquids	799.0	63.7	8.2	870.9	225.7	3,201.8	129.1	342.6
Petroleum Services	1,764.2	749.5	.4	2,514.1	156.9	2,534.2	96.0	264.2
Merger-related costs	--	--	--	--	(50.7)	--	--	--
	4,275.0	765.2	1.9	5,042.1	386.1	8,791.9	225.9	692.2
Communications								
Network	156.3	49.8	--	206.1	(29.6)	913.6	.1	392.7
Broadband Media	157.9	3.3	--	161.2	(39.4)	176.8	--	39.5
Solutions	1,366.8	--	--	1,366.8	(54.1)	969.3	--	66.8
Strategic Investments	47.5	4.9	(18.4)	34.0	(69.9)	238.0	43.1	15.4
	1,728.5	58.0	(18.4)	1,768.1	(193.0)	2,297.7	43.2	514.4
Other	32.2	30.8	5.4	68.4	2.5	4,782.4	96.6	157.3
Eliminations	--	(905.1)	--	(905.1)	--	(5,610.9)	--	--
Total	$7,669.2	$ --	$(10.9)	$ 7,658.3	$ 806.0	$18,647.3	$374.6	$1,848.9
1997								
Gas Pipeline	$1,626.9	$ 52.7	$ .5	$ 1,680.1	$ 614.7	$ 8,202.8	$ 6.7	$ 435.9
Energy Services								
Energy Marketing & Trading	1,803.5	(36.8)*	(5.6)	1,761.1	45.7	1,688.8	1.8	102.4
Exploration & Production	3.6	126.5	--	130.1	30.3	367.2	--	63.3
Midstream Gas & Liquids	929.1	100.5	--	1,029.6	282.3	3,188.3	87.5	212.0
Petroleum Services	2,407.6	128.4	.4	2,536.4	181.1	1,842.0	9.6	150.5
	5,143.8	318.6	(5.2)	5,457.2	539.4	7,086.3	98.9	528.2
Communications								
Network	21.9	21.1	--	43.0	3.3	246.1	2.3	185.2
Broadband Media	160.7	1.3	--	162.0	(32.9)	192.5	--	58.0
Solutions	1,206.5	--	--	1,206.5	47.3	880.5	--	247.6
Strategic Investments	52.5	3.5	(2.4)	53.6	(75.8)	119.6	3.8	33.8
	1,441.6	25.9	(2.4)	1,465.1	(58.1)	1,438.7	6.1	524.6
Other	29.3	9.1	15.0	53.4	11.4	2,476.7	143.8	208.7
Eliminations	--	(406.3)	--	(406.3)	--	(2,921.7)	--	--
Total	$8,241.6	$ --	$ 7.9	$ 8,249.5	$1,107.4	$16,282.8	$255.5	$1,697.4

	DEPRECIATION, DEPLETION & AMORTIZATION
	(MILLIONS)
1999	

Gas Pipeline	$285.1
Energy Services	
Energy Marketing & Trading	35.3
Exploration & Production	23.5
Midstream Gas & Liquids	143.8
Petroleum Services	82.9
Merger-related costs	--
	285.5
Communications	
Network	49.2
Broadband Media	32.8
Solutions	49.2
Strategic Investments	5.2
	136.4
Other	35.0
Eliminations	--
Total	$742.0
1998	
Gas Pipeline	$287.0
Energy Services	
Energy Marketing & Trading	30.1
Exploration & Production	26.0
Midstream Gas & Liquids	121.6
Petroleum Services	70.8
Merger-related costs	--
	248.5
Communications	
Network	13.2
Broadband Media	22.8
Solutions	37.0
Strategic Investments	10.8
	83.8
Other	27.0
Eliminations	--
Total	$646.3
1997	
Gas Pipeline	$273.0
Energy Services	
Energy Marketing & Trading	20.8
Exploration & Production	12.6
Midstream Gas & Liquids	131.9
Petroleum Services	67.8
	233.1
Communications	
Network	4.7
Broadband Media	21.4
Solutions	29.8
Strategic Investments	10.9
	66.8
Other	13.0
Eliminations	--
Total	$585.9

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* Energy Marketing & Trading intercompany cost of sales, which are netted in revenues consistent with fair-value accounting, exceed intercompany revenues in 1999, 1998 and 1997.

THE WILLIAMS COMPANIES, INC.

QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data are as follows (millions, except per-share amounts). Certain amounts have been restated or reclassified as described in Note 1 of Notes to Consolidated Financial Statements.

1999	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Revenues	$1,944.1	$1,993.0	$2,207.2	$2,448.8
Costs and operating expenses	1,398.5	1,435.9	1,666.9	1,856.7
Income before extraordinary gain and cumulative effect of change in accounting principle	58.5	18.1	28.1	57.1
Net income	52.9	18.1	28.1	122.3
Basic earnings per common share:				
Income before extraordinary gain and cumulative effect of change in accounting principle	.13	.04	.06	.13
Net income	.12	.04	.06	.28
Diluted earnings per common share:				
Income before extraordinary gain and cumulative effect of change in accounting principle	.13	.04	.06	.12
Net income	.12	.04	.06	.27

1998	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Revenues	$1,958.8	$1,774.3	$1,886.8	$2,038.4
Costs and operating expenses	1,430.8	1,259.1	1,377.5	1,473.4
Income (loss) before extraordinary loss	68.1	60.8	31.9	(33.7)
Net income (loss)	63.3	60.8	31.9	(33.7)
Basic earnings per common share:				
Income (loss) before extraordinary loss	.16	.14	.07	(.08)
Net income (loss)	.15	.14	.07	(.08)
Diluted earnings per common share:				
Income (loss) before extraordinary loss	.15	.14	.07	(.08)
Net income (loss)	.14	.14	.07	(.08)

The sum of earnings per share for the four quarters may not equal the total earnings per share for the year due to changes in the average number of common shares outstanding and rounding.

First-quarter 1999 net income includes a $5.6 million after-tax charge related to a cumulative effect of change in accounting principle (see Note 1). Second-quarter 1999 net income includes a $51 million favorable pre-tax adjustment related to the reduction of certain rate refund liabilities and related interest accruals resulting from regulatory proceedings involving rate-of-return methodology (see Note 19). Also included in second-quarter 1999 net income is a $26.7 million pre-tax charge related to the sale of certain of Strategic Investments' network application businesses. An additional $1.7 million was recorded in the fourth quarter relating to this sale (see Note 5). Fourth-quarter 1999 net income for Gas Pipeline includes a $21 million favorable pre-tax reduction of certain rate refund liabilities resulting from recent developments in regulatory proceedings which concluded that the risk involved with one of the issues in the proceedings had been eliminated (see Note 19). Also included in fourth-quarter 1999 net income are pre-tax gains of approximately $31 million from sales of operating assets (see Note 5) and an after-tax gain of $65.2 million related to the sale of Williams' retail propane business, Thermogas L.L.C. (see Note 7).

First-quarter, second-quarter, third-quarter and fourth-quarter 1998 net income includes approximately $59 million, $9 million, $6 million and $6 million, respectively, of pre-tax merger-related costs (see Note 2). Second-quarter 1998 net income also includes a pre-tax $15.5 million loss provision for potential refunds to customers (see Note 19). Third-quarter 1998 net income includes $17 million in pre-tax credit loss accruals

THE WILLIAMS COMPANIES, INC.

QUARTERLY FINANCIAL DATA (UNAUDITED) -- (CONCLUDED)

for certain retail energy activities. In addition, third-quarter 1998 includes a $23.2 million pre-tax loss related to a venture involved in the technology and transmission of business information for news and educational purposes (see Note 5). Fourth-quarter 1998 net income includes pre-tax accruals totaling approximately $31 million related to the modification of Williams' employees benefit program. Also included in fourth-quarter 1998 net income is a pre-tax charge of $58 million related to certain long-term gas supply contracts (see Note 19) and $14 million for asset impairments related to Energy Services' decision to change the focus of its retail natural gas and electric business (see Note 5).

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

None.

THE WILLIAMS COMPANIES, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
ITEM 14(A) 1 AND 2

	PAGE
Covered by report of independent auditors:	
Consolidated statement of income for the three years ended December 31, 1999	F-26
Consolidated balance sheet at December 31, 1999 and 1998	F-27
Consolidated statement of stockholders' equity for the three years ended December 31, 1999	F-28
Consolidated statement of cash flows for the three years ended December 31, 1999	F-29
Notes to consolidated financial statements	F-30
Schedules for the three years ended December 31, 1999:	
I -- Condensed financial information of registrant	F-68
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Quarterly financial data (unaudited)	F-65

All other schedules have been omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the financial statements and notes thereto.

THE WILLIAMS COMPANIES, INC.

SCHEDULE I -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENT OF INCOME (PARENT)

	YEARS ENDED DECEMBER 31,		
	1999	1998	1997
	(DOLLARS IN MILLIONS, EXCEPT PER-SHARE AMOUNTS)		
Investing income:			
Consolidated subsidiaries	$ 198.2	$ 33.9	$ 6.6
Other	15.1	4.6	2.4
Interest accrued:			
Consolidated subsidiaries	(148.0)	(59.4)	(64.5)
Other	(274.7)	(154.2)	(131.0)
Other expense -- net	(24.2)	(13.2)	(2.4)
Loss from continuing operations before income taxes, equity in subsidiaries' income, extraordinary gain (loss) and cumulative effect of change in accounting principle	(233.6)	(188.3)	(188.9)
Credit for income taxes	(87.8)	(72.3)	(69.3)
Loss from continuing operations before equity in subsidiaries' income, extraordinary gain (loss) and cumulative effect of change in accounting principle	(145.8)	(116.0)	(119.6)
Equity in consolidated subsidiaries' income	307.6	257.4	556.4
Income from continuing operations	161.8	141.4	436.8
Loss from discontinued operations	--	(14.3)	(6.3)
Income before extraordinary gain (loss) and cumulative effect of change in accounting principle	161.8	127.1	430.5
Extraordinary gain (loss)	65.2	(4.8)	(79.1)
Cumulative effect of change in accounting principle	(5.6)	--	--
Net income	221.4	122.3	351.4
Preferred stock dividends	2.8	7.1	9.8
Income applicable to common stock	$ 218.6	$ 115.2	$ 341.6
Basic earnings per common share:			
Income from continuing operations	$ .36	$ .31	$ 1.04
Loss from discontinued operations	--	(.03)	(.02)
Income before extraordinary gain (loss) and cumulative effect of change in accounting principle	.36	.28	1.02
Extraordinary gain (loss)	.14	(.01)	(.19)
Cumulative effect of change in accounting principle	(.01)	--	--
Net income	$ .49	$ .27	$ .83
Diluted earnings per common share:			
Income from continuing operations	$ .35	$ .31	$ 1.01
Loss from discontinued operations	--	(.03)	(.01)
Income before extraordinary gain (loss) and cumulative effect of change in accounting principle	.35	.28	1.00
Extraordinary gain (loss)	.14	(.01)	(.19)
Cumulative effect of change in accounting principle	(.01)	--	--
Net income	$ .48	$ .27	$ .81

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

SCHEDULE I -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT -- (CONTINUED)
BALANCE SHEET (PARENT)

ASSETS

	DECEMBER 31,	
	1999	1998
	(MILLIONS)	
Current assets:		
Cash and cash equivalents	$ 495.9	$ 377.3
Due from consolidated subsidiaries	497.9	108.2
Receivables	8.8	70.7
Other	15.4	13.4
Total current assets	1,018.0	569.6
Investments:		
Equity in consolidated subsidiaries	11,459.6	7,445.4
Due from consolidated subsidiaries	3,496.0	927.0
Other	181.3	--
Property, plant and equipment -- net	29.1	24.3
Other assets and deferred charges	93.2	37.6
Total assets	$16,277.2	$9,003.9

LIABILITIES AND STOCKHOLDERS' EQUITY

	1999	1998
Current liabilities:		
Notes payable	$ 1,285.3	$ --
Due to consolidated subsidiaries	1,466.2	564.2
Accounts payable and accrued liabilities	163.6	118.8
Long-term debt due within one year	132.8	150.0
Total current liabilities	3,047.9	833.0
Long-term debt	4,699.5	2,290.5
Due to consolidated subsidiaries	1,816.9	1,538.7
Deferred income taxes	132.3	22.4
Other liabilities	80.4	61.9
Stockholders' equity:		
Preferred stock	--	102.2
Common stock	463.2	432.3
Capital in excess of par value	3,253.0	982.4
Retained earnings	2,807.2	2,849.5
Accumulated other comprehensive income	99.5	16.7
Other	(77.6)	(78.5)
	6,545.3	4,304.6
Less treasury stock	(45.1)	(47.2)
Total stockholders' equity	6,500.2	4,257.4
Total liabilities and stockholders' equity	$16,277.2	$9,003.9

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

SCHEDULE I -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT -- (CONTINUED)
STATEMENT OF CASH FLOWS (PARENT)

	YEARS ENDED DECEMBER 31,		
	1999	1998	1997
		(MILLIONS)	
Cash provided by operating activities	$ 126.9	$ 88.8	$ 9.6
Financing activities:			
Proceeds from notes payable	460.0	305.0	1,068.7
Payments of notes payable	(269.4)	(654.0)	(989.2)
Proceeds from long-term debt	1,369.5	2,177.7	682.2
Payments of long-term debt	(243.9)	(989.8)	(854.4)
Proceeds from issuance of common stock including tax benefit	141.3	69.4	65.8
Purchases of treasury stock	--	--	(18.5)
Dividends paid	(263.7)	(247.4)	(181.5)
Other -- net	(6.0)	(10.3)	(5.1)
Net cash provided (used) by financing activities	1,187.8	650.6	(232.0)
Investing activities:			
Property, plant and equipment:			
Capital expenditures	(11.5)	(4.3)	(33.3)
Proceeds from dispositions	3.9	.1	13.7
Investments in consolidated subsidiaries	(460.5)	(264.6)	(.4)
Changes in due to/due from consolidated subsidiaries	(734.9)	(104.9)	191.7
Other -- net	6.9	6.4	(.1)
Net cash provided (used) by investing activities	(1,196.1)	(367.3)	171.6
Increase (decrease) in cash and cash equivalents	118.6	372.1	(50.8)
Cash and cash equivalents at beginning of year	377.3	5.2	56.0
Cash and cash equivalents at end of year	$ 495.9	$ 377.3	$ 5.2

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

SCHEDULE I -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT -- (CONTINUED)
NOTES TO FINANCIAL INFORMATION (PARENT)

NOTE 1. BASIS OF PRESENTATION

During 1999, Williams Holdings of Delaware, Inc., a wholly owned subsidiary, merged with and into The Williams Companies, Inc. (Parent) (Williams (Parent)). Subsequent to the merger, this Condensed Financial Information of Registrant includes the accounts previously reported by Williams Holdings of Delaware, Inc. (Williams Holdings) on a parent company-only basis. The assets and liabilities of Williams Holdings included $1.4 billion of equity in consolidated subsidiaries, a net $1.0 billion due from consolidated subsidiaries, $1.1 billion of notes payable, $114 million of deferred income tax liabilities and $1.3 billion of long-term debt. This Condensed Financial Information of Registrant should be read in conjunction with The Williams Companies, Inc. (Williams) Consolidated Financial Statements and Notes thereto.

NOTE 2. DEBT AND BANKING ARRANGEMENTS

Notes payable

Williams (Parent) has entered into a commercial paper program backed by a $1.4 billion short-term bank-credit facility. Prior to the 1999 Williams Holdings merger, this commercial paper program was included in Williams Holdings. At December 31, 1999, $1.2 billion of commercial paper was outstanding under the program. In addition, Williams has entered into various other short-term credit agreements with amounts outstanding totaling $50 million at December 31, 1999. The weighted-average interest rate on the outstanding short-term borrowings at December 31, 1999 was 6.1 percent.

Long-term debt

Williams has a $1 billion revolving credit agreement under which certain subsidiaries have access to varying amounts while Williams (Parent) has access to all unborrowed amounts. Interest rates vary with current market conditions.

	WEIGHTED-AVERAGE INTEREST RATE*	DECEMBER 31, 1999	DECEMBER 31, 1998
		(MILLIONS)	
Revolving credit loans	7.0%	$ 525.0	$ 144.0
Debentures, 6.25% -- 10.25%, payable 2006, 2012, 2020, 2021 and 2027	6.4	488.9	137.0
Notes, 5.1% -- 9.625%, payable through 2022(1)	6.5	3,518.4	2,059.5
Notes, adjustable rate, payable 2000 and 2004	6.3	300.0	100.0
		4,832.3	2,440.5
Current portion of long-term debt		132.8	150.0
		$4,699.5	$2,290.5

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* At December 31, 1999, including the effects of interest-rate swaps.

(1) $300 million, 5.95% notes, payable 2010, and $240 million, 6.125% notes, payable 2012, are subject to redemption at par at the option of the debtholder in 2000 and 2002, respectively.

For financial reporting purposes at December 31, 1999, $404 million in obligations which would have otherwise been classified as current debt obligations have been classified as non-current based on Williams' (Parent) intent and ability to refinance on a long-term basis. Williams' (Parent) issuance in January 2000 of $500 million of adjustable rate notes due 2001 is sufficient to complete these refinancings.

THE WILLIAMS COMPANIES, INC.

SCHEDULE I -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT -- (CONCLUDED)
NOTES TO FINANCIAL INFORMATION (PARENT)

Aggregate minimum maturities and sinking fund requirements, excluding lease payments, for each of the next five years are as follows:

	(MILLIONS)
2000	$ 133
2001	811
2002	1,373
2003	252
2004	372

NOTE 3. DUE FROM AND DUE TO CONSOLIDATED SUBSIDIARIES

Due from and due to consolidated subsidiaries consist of short-term receivables and payables with subsidiaries and promissory notes to and from subsidiaries. Williams (Parent) maintains various promissory notes with its subsidiaries for both advances from and advances to Williams (Parent) depending on the cash position of each subsidiary. Amounts outstanding are payable on demand; however, the amounts outstanding at December 31, 1999 and 1998 have been classified as long-term to the extent there are no expectations for Williams (Parent) and its subsidiaries to demand payment in the next year. The agreements do not require commitment fees. Interest is payable monthly, and rates vary with market conditions.

In 1999, Williams (Parent) issued $175 million in zero coupon subordinated debentures which yield a 7.92 percent return and mature no later than March 2002 to Williams Capital Trust I, a consolidated entity. These debentures are included in non-current due to consolidated subsidiaries at December 31, 1999.

In 1995, Williams (Parent) issued $360 million in convertible debentures and warrants to Williams Holdings in exchange for 12.2 million shares of Williams (Parent) common stock purchased on the open market and held by that subsidiary. The debentures were included in non-current due to consolidated subsidiaries at December 31, 1998. Upon the 1999 merger of Williams Holdings into Williams (Parent), the convertible debentures and warrants were retired.

NOTE 4. STOCKHOLDERS' EQUITY

During 1999, each remaining share of Williams (Parent) $3.50 cumulative convertible preferred stock was converted at the option of the holder into 4.6875 shares of Williams common stock prior to the redemption date.

During 1999, Williams (Parent) contributed approximately 18.7 million shares of its previously un-issued common stock to a wholly owned subsidiary in exchange for investments in certain foreign operations which were subsequently contributed by Williams (Parent) to another wholly owned subsidiary. The issuance of the common stock was recorded at the May 27, 1999 market value of $915 million. For the Condensed Financial Information of Registrant, the issuance of the stock is reflected in stockholders' equity, however, the issuance of the stock is eliminated for the Consolidated Financial Statements of Williams.

See Note 15 of Notes to Consolidated Financial Statements for discussion of the impact on Williams (Parent) of the 1999 issuance of common stock by a subsidiary.

NOTE 5. DIVIDENDS RECEIVED

Cash dividend from subsidiaries and companies accounted for on an equity basis are as follows: 1999 -- $162.0 million; 1998 -- $177.5 million; and 1997 -- $266.9 million.

NOTE 6. GUARANTEES

At December 31, 1999, Williams Communications Group, Inc., a subsidiary of Williams (Parent), has a $1.05 billion long term credit agreement that is guaranteed by Williams (Parent). Williams (Parent) is

THE WILLIAMS COMPANIES, INC.

SCHEDULE I -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT -- (CONCLUDED)
NOTES TO FINANCIAL INFORMATION (PARENT)

expected to be released from the guarantees in the first quarter of 2000. At December 31, 1999 no amounts were outstanding under this facility.

See Note 13 of Notes to Consolidated Financial Statements for discussion of Williams (Parent) guarantee of the residual value of network assets under lease. In addition, see Notes 14 and 18 of the Notes to Consolidated Financial Statements for discussion of other guarantees by Williams (Parent).

NOTE 7. CONTINGENT LIABILITIES

See Note 19 of Notes to Consolidated Financial Statements for discussion of environmental matters related to the assets of Agrico Chemical Company which were sold in 1987.

THE WILLIAMS COMPANIES, INC.

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

		ADDITIONS			
	BEGINNING BALANCE	CHARGED TO COSTS AND EXPENSES	OTHER	DEDUCTIONS	ENDING BALANCE
			(MILLIONS)		
Year ended December 31, 1999:					
Allowance for doubtful accounts --					
Receivables(a)	$30.5	$28.3	$ --	$10.8(c)	$48.0
Price-risk management credit reserves(a)	13.0	(2.4)	--	--	10.6
Refining and processing plant major maintenance accrual(b)	5.3	7.8	3.9(e)	9.4(d)	7.6
Year ended December 31, 1998:					
Allowance for doubtful accounts --					
Receivables(a)	21.5	39.8	--	30.8(c)	30.5
Other assets(a)	4.6	--	--	4.6(c)	--
Price-risk management credit reserves(a)	7.7	5.3	--	--	13.0
Refining and processing plant major maintenance accrual(b)	6.2	5.1	--	6.0(d)	5.3
Year ended December 31, 1997:					
Allowance for doubtful accounts --					
Receivables(a)	11.4	13.3	7.0(e)	10.2(c)	21.5
Other assets(a)	4.6	--	--	--	4.6
Price-risk management credit reserves(a)	7.6	.1	--	--	7.7
Refining and processing plant major maintenance accrual(b)	5.6	4.6	--	4.0(d)	6.2

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(a) Deducted from related assets.

(b) Included in liabilities.

(c) Represents balances written off, net of recoveries and reclassifications.

(d) Represents payments made.

(e) Primarily relates to acquisitions of businesses.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information regarding the Directors and nominees for Director of Williams required by Item 401 of Regulation S-K is presented under the heading "Election of Directors" in Williams' Proxy Statement prepared for the solicitation of proxies in connection with the Annual Meeting of Stockholders of the Company for 2000 (the "Proxy Statement"), which information is incorporated by reference herein. A copy of the Proxy Statement is filed as an exhibit to the Form 10-K. Information regarding the executive officers of Williams is presented following Item 4 herein, as permitted by General Instruction G(3) to Form 10-K and Instruction 3 to Item 401(b) of Regulation S-K. Information required by Item 405 of Regulation S-K is included under the heading "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in the Proxy Statement, which information is incorporated by reference herein.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 402 of Regulation S-K regarding executive compensation is presented under the headings "Election of Directors" and "Executive Compensation and Other Information" in the Proxy Statement, which information is incorporated by reference herein. Notwithstanding the foregoing, the information provided under the headings "Compensation Committee Report on Executive Compensation" and "Stockholder Return Performance Presentation" in the Proxy Statement are not incorporated by reference herein. A copy of the Proxy Statement is filed as an exhibit to the Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information regarding the security ownership of certain beneficial owners and management required by Item 403 of Regulation S-K is presented under the headings "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement, which information is incorporated by reference herein. A copy of the Proxy Statement is filed as an exhibit to the Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information regarding certain relationships and related transactions required by Item 404 of Regulation S-K is presented under the heading "Certain Relationships and Related Transactions" in the Proxy Statement, which information is incorporated by reference herein. A copy of the Proxy Statement is filed as an exhibit to the Form 10-K.

PART IV

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

(a) 1 and 2. The financial statements and schedules listed in the accompanying index to consolidated financial statements are filed as part of this annual report.

(a) 3 and (c). The exhibits listed below are filed as part of this annual report.

EXHIBIT NO.	DESCRIPTION
Exhibit 2	
*(a)	-- Agreement and Plan of Merger, dated as of November 23, 1997, and as amended on January 25, 1998, among The Williams Companies, Inc., MAPCO Inc. and TML Acquisition Corp. (filed as Exhibit 2.1 to Williams' Registration Statement on Form S-4, filed January 27, 1998).
Exhibit 3	
*(a)	-- Restated Certificate of Incorporation of Williams (filed as Exhibit 4(a) to Form 8-B Registration Statement, filed August 20, 1987).
*(b)	-- Certificate of Amendment of Restated Certificate of Incorporation, dated May 20, 1994 (filed as Exhibit 3(d) to Form 10-K for the fiscal year ended December 31, 1994).
*(c)	-- Certificate of Amendment of Restated Certificate of Incorporation dated May 16, 1997 (filed as Exhibit 4.3 to the Registration Statement on Form S-8 filed November 21, 1997).
*(d)	-- Certificate of Amendment of Restated Certificate of Incorporation, dated February 26, 1998 (filed as Exhibit 3(d) to Form 10-K for the fiscal year ended December 31, 1997).
*(e)	-- Certificate of Increase of Authorized Number of Shares of Series A Junior Participating Preferred Stock (filed as Exhibit 3(f) to Form 10-K for the fiscal year ended December 31, 1995).
*(f)	-- Certificate of Increase of Authorized Number of Shares of Series A Junior Participating Preferred Stock, dated December 31, 1997 (filed as Exhibit 3(g) to Form 10-K for the fiscal year ended December 31, 1997).
*(g)	-- Rights Agreement, dated as of February 6, 1996, between Williams and First Chicago Trust Company of New York (filed as Exhibit 4 to Williams Form 8-K filed January 24, 1996).
*(h)	-- By-laws of Williams, as amended (filed, as amended, as Exhibit 99.1 to Form 8-K filed January 19, 2000)
Exhibit 4	
*(a)	-- Form of Senior Debt Indenture between the Company and Chase Manhattan Bank (formerly Chemical Bank), Trustee, relating to the 10 1/4% Debentures, due 2020; the 9 3/8% Debentures, due 2021; Medium-Term Notes (9.10%-9.31%), due 2001; the 7 1/2% Notes, due 1999, and the 8 7/8% Debentures, due 2012 (filed as Exhibit 4.1 to Form S-3 Registration Statement No. 33-33294, filed February 2, 1990).
*(b)	-- Second Amended and Restated Credit Agreement, dated as of July 23, 1997, among Williams and certain of its subsidiaries and the banks named therein and Citibank, N.A., as agent (filed as Exhibit 4(c) to Form 10-K for the fiscal year ended December 31, 1997).
*(c)	-- Amendment dated January 26, 1999, to Second Amended and Restated Credit Agreement dated July 23, 1997, among Williams and certain of its subsidiaries and the banks named therein and Citibank, N.A., as agent (filed as Exhibit 4(c) to Form 10-K for fiscal year ended December 31, 1998).

EXHIBIT NO.	DESCRIPTION
*(d)	-- Second Amended and Restated Credit Agreement, dated as of January 24, 2000, among Williams and the banks named therein and Citibank, N.A., as agent (filed as Exhibit 4(d) to Form 10-K for the year ended December 31, 1999).
*(e)	-- Second Amendment to Second Amended and Restated Credit Agreement, dated as of January 24, 2000 among Williams and certain of its subsidiaries and the banks named therein and Citibank, N.A., as agent (filed as Exhibit 4(e) to Form 10-K for the year ended December 31, 1999).
*(f)	-- Form of Senior Debt Indenture between the Company and The First National Bank of Chicago, Trustee, relating to 6 1/2% Notes due 2002; 6 5/8% Notes due 2004; floating rate notes due 2000; 6 1/8% Notes due 2001; 6.20% Notes due 2002; 6 1/2% Notes due 2006; 5.95% Structured Putable/ Remarketable Securities due 2010; and 6 1/8% Mandatory Putable/ Remarketable Securities due 2012 (filed as Exhibit 4.1 to Registration Statement on Form S-3 filed September 8, 1997).
*(g)	-- Form of Debenture representing $360,000,000 principal amount of 6% Convertible Subordinated Debenture Due 2005 (filed as Exhibit 4.7 to the Registration Statement on Form S-8, filed August 30, 1996).
*(h)	-- Form of Warrant to purchase 11,305,720 shares of the Common Stock of the Company (filed as Exhibit 4.8 to the Registration Statement on Form S-8, filed August 30, 1996).
*(i)	-- Indenture dated May 1, 1990, between Transco Energy Company and The Bank of New York, as Trustee (filed as an Exhibit to Transco Energy Company's Form 8-K dated June 25, 1990).
*(j)	-- First Supplemental Indenture dated June 20, 1990, between Transco Energy Company and The Bank of New York, as Trustee (filed as an Exhibit to Transco Energy Company's Form 8-K dated June 25, 1990).
*(k)	-- Second Supplemental Indenture dated November 29, 1990, between Transco Energy Company and The Bank of New York, as Trustee (filed as an Exhibit to Transco Energy Company's Form 8-K dated December 7, 1990).
*(l)	-- Third Supplemental Indenture dated April 23, 1991, between Transco Energy Company and The Bank of New York, as Trustee (filed as an Exhibit to Transco Energy Company's Form 8-K dated April 30, 1991).
*(m)	-- Fourth Supplemental Indenture dated August 22, 1991, between Transco Energy Company and The Bank of New York, as Trustee (filed as an Exhibit to Transco Energy Company's Form 8-K dated August 27, 1991).
*(n)	-- Fifth Supplemental Indenture dated May 1, 1995, among Transco Energy Company, Williams, and The Bank of New York, Trustee (filed as Exhibit 4(l) to Form 10-K for fiscal year ended December 31, 1998).
*(o)	-- First Supplemental Indenture dated as of July 31, 1999, among Williams Holdings of Delaware, Inc., Williams, and Citibank, N.A., as Trustee (filed as Exhibit 4(o) to Form 10-K for the year ended December 31, 1999).
*(p)	-- Second Supplemental Indenture dated as of July 31, 1999, among Williams Holdings of Delaware, Inc., Williams, and Bankers Trust Company, as Trustee (filed as Exhibit 4(p) to Form 10-K for the year ended December 31, 1999).
*(q)	-- Fourth Supplemental Indenture dated as of July 31, 1999, among Williams Holdings of Delaware, Inc., Williams, and The First National Bank of Chicago, as Trustee (filed as Exhibit 4(q) to Form 10-K for the year ended December 31, 1999).

EXHIBIT NO.	DESCRIPTION
(r)	-- U.S. $400,000,000 Term Loan Facility dated April 7, 2000, among Williams, the lenders named therein, and Credit Lyonnais New York Branch, as administrative agent.
Exhibit 10(iii)	-- Compensatory Plans and Management Contracts
*(a)	-- The Williams Companies, Inc. Supplemental Retirement Plan, effective as of January 1, 1988 (filed as Exhibit 10(iii)(c) to Form 10-K for the year ended December 31, 1987).
*(b)	-- Form of Employment Agreement, dated January 1, 1990, between Williams and certain executive officers (filed as Exhibit 10(iii)(d) to Form 10-K for the year ended December 31, 1989).
*(c)	-- Form of The Williams Companies, Inc. Change in Control Protection Plan between Williams and employees (filed as Exhibit 10(iii)(e) to Form 10-K for the year ended December 31, 1989).
*(d)	-- The Williams Companies, Inc. 1985 Stock Option Plan (filed as Exhibit A to Williams' Proxy Statement, dated March 13, 1985).
*(e)	-- The Williams Companies, Inc. 1988 Stock Option Plan for Non-Employee Directors (filed as Exhibit A to Williams' Proxy Statement, dated March 14, 1988).
*(f)	-- The Williams Companies, Inc. 1990 Stock Plan (filed as Exhibit A to Williams' Proxy Statement, dated March 12, 1990).
*(g)	-- The Williams Companies, Inc. Stock Plan for Non-Officer Employees (filed as Exhibit 10(iii)(g) to Form 10-K for the fiscal year ended December 31, 1995).
*(h)	-- The Williams Companies, Inc. 1996 Stock Plan (filed as Exhibit A to Williams' Proxy Statement, dated March 27, 1996).
*(i)	-- The Williams Companies, Inc. 1996 Stock Plan for Non-Employee Directors (filed as Exhibit B to Williams' Proxy Statement, dated March 27, 1996).
*(j)	-- Indemnification Agreement, effective as of August 1, 1986, between Williams and members of the Board of Directors and certain officers of Williams (filed as Exhibit 10(iii)(e) to Form 10-K for the year ended December 31, 1986).
*(k)	-- The Williams Communications Stock Plan (filed as Exhibit 99 to the Registration Statement on Form S-8, filed on August 14, 1998).
*(l)	-- The Williams International Stock Plan (filed as Exhibit 10(iii)(l) to Form 10-K for fiscal year ended December 31, 1998).
*(m)	-- Form of Stock Option Secured Promissory Note and Pledge Agreement between Williams and certain employees, officers, and non-employee directors (filed as Exhibit 10(iii)(m) to Form 10-K for fiscal year ended December 31, 1998).
*Exhibit 12	-- Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividend Requirements (filed as Exhibit 12 to Form 10-K for the year ended December 31, 1999).
*Exhibit 18	-- Letter regarding change in accounting principles (filed as Exhibit 18 to Form 10-K for the year ended December 31, 1999).
*Exhibit 20	-- Definitive Proxy Statement of Williams for 2000 (as filed with the Commission on March 27, 2000) (filed as Exhibit 20 to Form 10-K for the year ended December 31, 1999).
*Exhibit 21	-- Subsidiaries of the registrant (filed as Exhibit 21 to Form 10-K for the year ended December 31, 1999).
Exhibit 23(a)	-- Consent of Independent Auditors, Ernst & Young LLP.

EXHIBIT NO.		DESCRIPTION
Exhibit 23(b)	--	Consent of Independent Auditors, Deloitte & Touche LLP.
Exhibit 24	--	Power of Attorney together with certified resolution.
*Exhibit 27	--	Financial Data Schedule (filed as Exhibit 27 to Form 10-K for the year ended December 31, 1999).
*Exhibit 27.1	--	Restated Financial Data Schedules for the years ended December 31, 1998 and 1997 (filed as Exhibit 27.1 to Form 10-K for the year ended December 31, 1999).
*Exhibit 27.2	--	Restated Financial Data Schedules for the three, six and nine months ended March 31, 1999, June 30, 1999, and September 30, 1999, respectively (filed as Exhibit 27.2 to Form 10-K for the year ended December 31, 1999).
*Exhibit 27.3	--	Restated Financial Data Schedules for the three, six and nine month periods ended March 31, 1998, June 30, 1998, and September 30, 1998, respectively (filed as Exhibit 27.3 to Form 10-K for the year ended December 31, 1999).
Exhibit 99	--	Opinion of Independent Auditors, Deloitte & Touche LLP.

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* Each such exhibit has heretofore been filed with the Securities and Exchange Commission as part of the filing indicated and is incorporated herein by reference.

(b) Reports on Form 8-K.

On October 18, 1999, Williams filed a current report on Form 8-K to report that its subsidiary, Williams Communications Group, Inc., had sold a minority equity interest to the public in an initial public offering.

(d) The financial statements of partially-owned companies are not presented herein since none of them individually, or in the aggregate, constitute a significant subsidiary.

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.

THE WILLIAMS COMPANIES, INC.
(Registrant)

By: /s/ SHAWNA L. GEHRES
Shawna L. Gehres
Attorney-in-fact

Dated: June 21, 2000

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

SIGNATURE	TITLE
/s/ KEITH E. BAILEY* Keith E. Bailey	Chairman of the Board, President, Chief Executive Officer (Principal Executive Officer) and Director
/s/ JACK D. MCCARTHY* Jack D. McCarthy	Senior Vice President -- Finance (Principal Financial Officer)
/s/ GARY R. BELITZ* Gary R. Belitz	Controller (Principal Accounting Officer)
/s/ HUGH M. CHAPMAN* Hugh M. Chapman	Director
/s/ GLENN A. COX* Glenn A. Cox	Director
/s/ THOMAS H. CRUIKSHANK* Thomas H. Cruikshank	Director
/s/ WILLIAM E. GREEN* William E. Green	Director
/s/ PATRICIA L. HIGGINS* Patricia L. Higgins	Director
/s/ W. R. HOWELL* W. R. Howell	Director
/s/ JAMES C. LEWIS* James C. Lewis	Director

/s/ JACK A. MACALLISTER* Jack A. MacAllister	Director
/s/ FRANK T. MACINNIS* Frank T. MacInnis	Director
/s/ PETER C. MEINIG* Peter C. Meinig	Director
/s/ GORDON R. PARKER* Gordon R. Parker	Director
/s/ JANICE D. STONEY* Janice D. Stoney	Director
/s/ JOSEPH H. WILLIAMS* Joseph H. Williams	Director

By: /s/ SHAWNA L. GEHRES

Shawna L. Gehres
Attorney-in-fact

Dated: June 21, 2000

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION
Exhibit 4(r)	-- U.S. $400,000,000 Term Loan Facility dated April 7, 2000, among Williams, the lenders named therein, and Credit Lyonnais New York Branch, as administrative agent.
Exhibit 23(a)	-- Consent of Independent Auditors, Ernst & Young LLP.
Exhibit 23(b)	-- Consent of Independent Auditors, Deloitte & Touche LLP.
Exhibit 24	-- Power of Attorney together with certified resolution.
Exhibit 99	-- Opinion of Independent Auditors, Deloitte & Touche LLP.

EXHIBIT 4(r)

TERM LOAN AGREEMENT

among

THE WILLIAMS COMPANIES, INC.,
as Borrower

CREDIT LYONNAIS NEW YORK BRANCH,
as Administrative Agent

COMMERZBANK AG NEW YORK AND GRAND CAYMAN BRANCHES
as Syndication Agent

THE BANK OF NOVA SCOTIA,
as Documentation Agent

and

THE LENDERS NAMED HEREIN,
Lenders

Dated as of April 7, 2000

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TERM LOAN AGREEMENT

THIS AGREEMENT is entered into as of this 7th day of April, 2000, among THE WILLIAMS COMPANIES, INC., a Delaware corporation (the "Company"), LENDERS (hereinafter defined), COMMERZBANK AG NEW YORK AND GRAND CAYMAN BRANCHES, as Syndication Agent (hereinafter defined), THE BANK OF NOVA SCOTIA, as Documentation Agent (hereinafter defined), and CREDIT LYONNAIS NEW YORK BRANCH, a duly licensed branch under the New York Banking Law of a foreign banking corporation organized under the laws of the Republic of France, as a Lender and as Administrative Agent (hereinafter defined) for itself and the other Lenders, as hereinafter defined.

RECITALS

A. The Company has requested that Lenders extend credit to the Company, providing for a term loan facility in the aggregate principal amount of $400,000,000 for the purpose of refinancing existing indebtedness, financing acquisitions and capital expenditures and for general corporate purposes.

B. Upon and subject to the terms and conditions of this Agreement, Lenders are willing to extend such credit to the Company.

C. Accordingly, in consideration of the mutual covenants contained herein, the Company, Administrative Agent, Syndication Agent, Documentation Agent and Lenders agree as follows:

SECTION 1 DEFINITIONS AND TERMS

1.1 Definitions. As used herein:

"ADJUSTED EURODOLLAR RATE" means, for any Eurodollar Rate Borrowing for any Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) determined by the Administrative Agent to be equal to the quotient obtained by dividing (a) the Eurodollar Rate for such Eurodollar Rate Borrowing for such Interest Period by (b) one minus the Reserve Requirement for such Eurodollar Rate Borrowing for such Interest Period.

"ADMINISTRATIVE AGENT" means Credit Lyonnais New York Branch and its permitted successors or assigns as "Administrative Agent" under this Agreement.

"ADMINISTRATIVE QUESTIONNAIRE" means an Administrative Questionnaire substantially in the form of Exhibit C hereto, which each Lender shall complete and provide to Administrative Agent.

"AFFILIATE" of any Person means any other individual or entity who directly or indirectly controls, or is controlled by, or is under common control with, such Person, and, for purposes of this definition only, "control," "controlled by," and "under common control with" mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of voting securities, by contract, or otherwise).

"AGENTS" means, collectively, the Administrative Agent, the Syndication Agent and the Documentation Agent.

"AGREEMENT" means this Term Loan Agreement (as the same may hereafter be amended, modified, supplemented, or restated from time to time).

"APPLICABLE LENDING OFFICE" means, for each Lender and for each Type of Borrowing, the "Lending Office" of such Lender (or an Affiliate of such Lender) designated on Schedule 2.1 attached hereto or such other office that such Lender (or an Affiliate of such Lender) may from time to time specify to Administrative Agent and the Company by written notice in accordance with the terms hereof.

"APPLICABLE MARGIN" means the percentage set forth in the table below for the Type of Borrowing which corresponds to the Company's conformity, on any date of determination, with the ratings (or implied ratings) established by both S&P and Moody's applicable to the Company's senior, unsecured, non-credit-enhanced long term indebtedness for borrowed money ("Index Debt"):

Debt Ratings	Eurodollar Rate Borrowings	Base Rate Borrowings
Category 1 BBB+ and Baa2; or BBB and Baa1; or higher	0.8125%	0.00%
Category 2 BBB and Baa2	0.8750%	0.00%
Category 3 BBB and Baa3; or BBB- and Baa2	1.0000%	0.00%
Category 4 BBB- and Baa3	1.2500%	0.00%
Category 5 BBB- and Ba1; or BB+ and Baa3	1.5000%	0.00%
Category 6 BB+ and Ba1; or lower	2.0000%	0.50%

For purposes of determining the Applicable Margin, with respect to the debt ratings criteria: (i) if neither Moody's nor S&P shall have in effect a rating for Index Debt (other than by reason of the circumstances referred to in the last sentence of this definition), then both such rating agencies will be deemed to have established ratings for Index Debt in Category 6; (ii) if only one of Moody's or S&P shall have in effect a rating for Index Debt, the Company and the Lenders will negotiate in good faith to agree upon another rating agency to be substituted by an agreement for the rating agency which shall not have a rating in effect, and in the absence of such agreement the Applicable Margin will be determined by reference to the available rating; (iii) except as expressly provided in the above table, if the ratings established by Moody's and S&P shall differ by (x) one Category, the Applicable Margin shall be determined by reference to the numerically lower Category, and (y) two or more Categories the Applicable Margin shall be determined by reference to the numerical Category which is one less than the numerically highest such Category (for example, if the rating from S&P is in Category 2 and the rating from Moody's is in Category 6, the Applicable Margin shall be determined by reference to Category 5); and (iv) if any rating established by Moody's or S&P shall be changed (other than as a result of a change in the rating system of either Moody's or S&P), such change shall be effective as of the date on which such change is first announced by the rating agency making such change. If the rating system of either Moody's or S&P shall change prior to the payment in full of the Obligation and the cancellation of all commitments to lend hereunder, the Company and the Lenders shall negotiate in good faith to amend the references to specific ratings in this definition to reflect such changed rating system. If both Moody's and S&P shall cease to be in the business of rating corporate debt obligations, the Company and the Lenders shall negotiate in good faith to agree upon a substitute rating agency and to amend the references to specific ratings in this

definition to reflect the ratings used by such substitute rating agency, and the Applicable Margin shall continue to be based upon the ratings Category in effect immediately prior to such event until such agreement on a substitute rating agency is reached.

"ARRANGER" means Credit Lyonnais New York Branch and its successors and assigns.

"ATTRIBUTABLE OBLIGATION" of any Person means, with respect to any Sale and Lease-Back Transaction of such Person as of any particular time, the present value at such time discounted at the rate of interest implicit in the terms of the lease of the obligations of the lessee under such lease for net rental payments during the remaining term of the lease (including any period for which such lease has been extended or may, at the option of such Person, be extended).

"BANKRUPTCY CODE" means Title 11 of the United States Code entitled "Bankruptcy" as now or hereinafter in effect, or any successor thereto.

"BASE RATE" means, for any day, the rate per annum equal to the higher of (a) the Federal Funds Rate for such day plus one-half of one percent (.5%) or (b) the Prime Rate for such day. Any change in the Base Rate due to a change in the Prime Rate or the Federal Funds Rate shall be effective on the effective date of such change in the Prime Rate or Federal Funds Rate.

"BASE RATE BORROWING" means a Borrowing bearing interest at the sum of the Base Rate plus the Applicable Margin for Base Rate Borrowings.

"BORROWING" means any amount disbursed (a) by one or more Lenders to the Company under the Loan Papers, whether such amount constitutes an original disbursement of funds or the continuation of an amount outstanding or (b) by any Lender in accordance with, and to satisfy the obligations under, any Loan Paper.

"BORROWING DATE" is defined in Section 2.3(a).

"BUSINESS DAY" means (a) for all purposes, any day other than Saturday, Sunday, and any other day on which commercial banking institutions are required or authorized by Law to be closed in New York, New York, and (b) in addition to the foregoing, in respect of any Eurodollar Rate Borrowing, a day on which dealings in United States dollars are conducted in the London interbank market and commercial banks are open for international business in London.

"CASH HOLDINGS" of any Person means the total investment of such Person at the time of determination in:

(a) demand deposits or time deposits maturing within one year with any Agent or any Lender or any Bank (as defined in the Primary Credit Agreement) (or other commercial banking institution of the stature referred to in clause (d)(i) of this definition);

(b) any note or other evidence of indebtedness, maturing not more than one (1) year after such time, issued or guaranteed by the United States Government or by a government of another country which carries a long-term rating of Aaa by Moody's or AAA by S&P;

(c) commercial paper, maturing not more than nine (9) months from the date of issue, which is issued by

(i) a corporation (other than an Affiliate of the Company) rated (x) A-1 by S&P, P-1 by Moody's, F-1 by Fitch or A by Duff and Phelps or (y) lower than set forth in the immediately preceding clause (x), provided, however, that the value of all such commercial paper shall not exceed 10% of the total value of all commercial paper comprising "Cash Holdings," or

(ii) any Agent or any Lender or any Bank (as defined in the Primary Credit Agreement) (or its holding company) with a rating on its long-term unsecured debt of at least AA from S&P or Aa from Moody's;

(d) any certificate of deposit or bankers acceptance, maturing not more than three (3) years after such time, which is issued by either

(i) a commercial banking institution that is a member of the Federal Reserve System and has a combined capital and surplus and undivided profits of not less than $1,000,000,000; or

(ii) any Agent or any Lender or any Bank (as defined in the Primary Credit Agreement) with a rating on its long-term unsecured debt of at least AA from S&P or Aa from Moody's;

(e) notes or other evidences of indebtedness, maturing not more than three (3) years after such time, issued by

(i) a corporation (other than an Affiliate of the Company) rated AA by S&P or Aa by Moody's, or

(ii) any Agent or any Lender or any Bank (as defined in the Primary Credit Agreement) (or its holding company) with a rating on its long-term unsecured debt of at least AA from S&P or Aa from Moody's;

(f) any repurchase agreement entered into with any Agent or any Lender or any Bank (as defined in the Primary Credit Agreement) (or other commercial banking institution of the stature referred to in clause (d)(i) of this definition) which

(i) is secured by a fully perfected security interest in any obligation of the type described in any of clauses (a) through (d);

(ii) has a market value at the time such repurchase agreement is entered into of not less than 100% of the repurchase obligation of Administrative Agent or such Lender or Bank (as defined in the Primary Credit Agreement) (or other commercial banking institution) thereunder; and

(g) money market preferred instruments by participation in a Dutch auction (or the equivalent) where the instrument is rated no lower than Aa by Moody's or AA by S&P.

"CHOICESEAT" means ChoiceSeat, L.L.C., a Delaware limited liability company.

"CLOSING DATE" means the date upon which this Agreement has been executed by the Company, Lenders, and Administrative Agent and all conditions precedent specified in Section 6.1 have been satisfied or waived.

"CODE" means the Internal Revenue Code of 1986, as amended, or any successor Federal tax code, and any reference to any statutory provision shall be deemed to be a reference to any successor provision or provisions.

"COMMITMENT" means an amount (subject to reduction or cancellation as herein provided) equal to $400,000,000.

"COMMITMENT PERIOD" means the period of time from the Closing Date to and including the earlier of (i) the date which is ninety (90) days after the Closing Date, and (ii) the effective date of any other termination or cancellation of the Lenders' commitments to make loans under, and in accordance with, this Agreement.

"COMMITMENT USAGE" means, at the time of any determination thereof, the aggregate Principal Debt.

"COMMITTED SUM" means, as the case may be, the amount stated beside each Lender's name on the most-recently amended Schedule 2.1 to this Agreement (which amount is subject to increase, reduction, or cancellation in accordance with this Agreement).

"COMPANY" is defined in the preamble to this Agreement and includes any permitted successors of the Company.

"CONSEQUENTIAL LOSS" means any actual loss or expense which any Lender may reasonably incur in respect of a Eurodollar Rate Borrowing as a consequence of (a) any failure or refusal of the Company (for any reasons whatsoever other than a default by Administrative Agent or a Lender) to accept or utilize such Borrowing after the Company shall have requested it under this Agreement, or (b) any prepayment or payment of such Borrowing or conversion of such Borrowing to a Borrowing of another Type, in each case, prior to the last day of the Interest Period therefor.

"CONSOLIDATED" refers to the consolidation of the accounts of the Company and its Subsidiaries in accordance with generally accepted accounting principles and policies, including principles of consolidation, consistent with those applied in the preparation of the consolidated financial statements referred to in Section 7.5 hereof.

"CONSOLIDATED NET WORTH" of any Person means the Net Worth of such Person and its Subsidiaries on a Consolidated basis plus, in the case of the Company, the Designated Minority Interests to the extent not otherwise included; provided that, in no event shall the value ascribed to Designated Minority Interests exceed $511,700,000 in the aggregate.

"CONSOLIDATED TANGIBLE NET WORTH" of any Person means the Tangible Net Worth of such Person and its Subsidiaries on a Consolidated basis.

"DEBT" means, in the case of any Person, (i) indebtedness of such Person for borrowed money, (ii) obligations of such Person evidenced by bonds, debentures or notes, (iii) obligations of such Person to pay the deferred purchase price of property or services, (iv) monetary obligations of such Person as lessee under leases that are, in accordance with generally accepted accounting principles, recorded as capital leases, (v) obligations of such Person under guaranties in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to in clauses (i) through (iv) or clause (vii) of this definition, (vi) indebtedness or obligations of others of the kinds referred to in clauses (i) through (v) or clause (vii) of this definition secured by any Lien on or in respect of any property of such Person, and

(vii) all liabilities of such Person in respect of unfunded vested benefits under any Plan; provided, however, that Debt shall not include any obligation under or resulting from any agreement referred to in paragraph (y) of Schedule I.

"DEBTOR RELIEF LAWS" means the Bankruptcy Code of the United States of America and all other applicable liquidation, conservatorship, bankruptcy, moratorium, rearrangement, receivership, insolvency, reorganization, fraudulent transfer or conveyance, suspension of payments or similar Laws from time to time in effect affecting the Rights of creditors generally.

"DEFAULT" is defined in Section 9.

"DEFAULT RATE" means a per annum rate of interest equal from day to day to the lesser of (a) the sum of the Base Rate plus the Applicable Margin for Base Rate Borrowings plus 2% and (b) the Maximum Rate.

"DESIGNATED LENDER" means a special purpose corporation that is identified as such on the signature pages hereto next to the caption "Designated Lender" as well as each special purpose corporation that (i) shall have become a party to this Agreement pursuant to Section 12.13(f), and (ii) is not otherwise a Lender.

"DESIGNATED LENDER NOTE" means a promissory note of the Company, substantially in the form of Exhibit A hereto, evidencing the obligation of the Company, and "Designated Lender Notes" means any and all such promissory notes issued hereunder.

"DESIGNATING LENDER" shall mean each Lender that is identified as such on the signature pages hereto next to the caption "Designating Lender" and immediately below the signature of its Designated Lender as well as each Lender that shall designate a Designated Lender pursuant to Section 12.13(f) hereof.

"DESIGNATION AGREEMENT" means a designation agreement in substantially the form of Exhibit E attached hereto, entered into by a Lender and a Designated Lender and accepted by the Company and the Administrative Agent.

"DESIGNATED MINORITY INTERESTS" of the Company means, as of any date of determination, the total of the minority interests in the following Subsidiaries of the Company (i) El Furrial, (ii) PIGAP II, (iii) Nebraska Energy, (iv) Seminole, (v) WCG, (vi) WilTel, (vii) ChoiceSeat, (viii) PowerTel, and (ix) other Consolidated Subsidiaries of the Company as presented in its Consolidated balance sheet, in an amount not to exceed in the aggregate $9,000,000 for such other Consolidated Subsidiaries not referred to in clauses (i) through (viii) of this definition.

"DETERMINING LENDERS" means for all purposes under the Loan Papers, (i) on any date of determination occurring prior to the date upon which the Commitment has been terminated, those Lenders who collectively hold at least 51% of the Commitment; and (ii) on any date of determination occurring on or after the date upon which the Commitment has been terminated, those Lenders who collectively hold at least 51% of the Principal Debt.

"DISTRIBUTION" for any Person means, with respect to any shares of any capital stock or other equity securities issued by such Person, (a) the retirement, redemption, purchase, or other acquisition for value of any such securities, (b) the declaration or payment of any dividend on or with respect to any such securities, and (c) any other payment by such Person with respect to such securities.

"DOCUMENTATION AGENT" means The Bank of Nova Scotia and its permitted successors or assigns as "Documentation Agent" under this Agreement.

"DOLLARS" and the symbol $ shall mean lawful money of the United States of America.

"DUFF AND PHELPS" means Duff & Phelps Credit Rating Co.

"EL FURRIAL" means WilPro Energy Services (El Furrial) Limited, a Cayman Islands corporation.

"ELIGIBLE ASSIGNEE" means (a) a Lender; (b) an Affiliate of a Lender; and (c) any other Person approved by Administrative Agent (which approval will not be unreasonably withheld or delayed by Administrative Agent) and, unless a Default has occurred and is continuing at the time any assignment is effected in accordance with Section 12.13, the Company (such approval not to be unreasonably withheld or delayed by the Company and such approval to be deemed given by the Company if no objection is received by the assigning Lender and the Administrative Agent from the Company within five Business Days after notice of such proposed assignment has been provided by the assigning Lender to the Company); provided, however, that neither the Company nor any Affiliate of the Company shall qualify as an Eligible Assignee.

"ENVIRONMENT" shall have the meaning set forth in 42 U.S.C. Section 9601(8) as defined on the date of this Agreement, and "Environmental" shall mean pertaining or related to the Environment.

"ENVIRONMENTAL PROTECTION STATUTE" means any United States local, state or federal, or any foreign, law, statute, regulation, order, consent decree or other agreement or Governmental Requirement arising from or in connection with or relating to the protection or regulation of the Environment, including, without limitation, those laws, statutes, regulations, orders, decrees, agreements and other Governmental Requirements relating to the disposal, cleanup, production, storing, refining, handling, transferring, processing or transporting of Hazardous Waste, Hazardous Substances or any pollutant or contaminant, wherever located.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations and rulings promulgated thereunder from time to time.

"ERISA AFFILIATE" means any trade or business (whether or not incorporated) which is a member of a group of which the Company is a member and which is under common control within the meaning of the regulations under Section 414 of the Code.

"EURODOLLAR RATE" means, for any Eurodollar Rate Borrowing for any Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) appearing on Dow Jones Markets Page 3750 (or any successor page) as the London interbank offered rate for deposits in Dollars at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period for a term comparable to such Interest Period. If for any reason such rate is not available, the term "Eurodollar Rate" shall mean, for any Eurodollar Rate Borrowing for any Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) appearing on Reuters Screen LIBO Page as the London interbank offered rate for deposits in Dollars at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period for a term comparable to such Interest Period; provided, however, if more than one rate is specified on Reuters Screen LIBO Page, the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%).

"EURODOLLAR RATE BORROWING" means a Borrowing bearing interest at the sum of the Adjusted Eurodollar Rate plus the Applicable Margin for Eurodollar Rate Borrowings.

"EXHIBIT" means an exhibit to this Agreement unless otherwise specified.

"FEDERAL FUNDS RATE" means, for any day, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) determined (which determination shall be conclusive and binding, absent manifest error) by Administrative Agent to be equal to the weighted average of the rates on overnight Federal funds transactions with member banks of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate charged to the Administrative Agent (in its individual capacity) on such day on such transactions as determined by the Administrative Agent (which determination shall be conclusive and binding, absent manifest error).

"FITCH" means Fitch IBCA.

"GAAP" means generally accepted accounting principles of the Accounting Principles Board of the American Institute of Certified Public Accountants and the Financial Accounting Standards Board which are applicable from time to time.

"GOVERNMENTAL AUTHORITY" means any (a) local, state, municipal, or federal judicial, executive, or legislative instrumentality, (b) private arbitration board or panel, or (c) central bank.

"GOVERNMENTAL REQUIREMENTS" means all judgments, orders, writs, injunctions, decrees, awards, laws, ordinances, statutes, regulations, rules, franchises, permits, certificates, licenses, authorizations and the like and any other requirements of any government or any commission, board, court, agency, instrumentality or political subdivision thereof.

"HAZARDOUS SUBSTANCE" shall have the meaning set forth in 42 U.S.C. Section 9601(14) and shall also include each other substance considered to be a hazardous substance under any Environmental Protection Statute.

"HAZARDOUS WASTE" shall have the meaning set forth in 42 U.S.C. Section 6903(5) and shall also include each other substance considered to be a hazardous waste under any Environmental Protection Statute (including, without limitation, 40 C.F.R. Section 261.3).

"INSUFFICIENCY" means with respect to any Plan, the amount, if any, by which the present value of the vested benefits under such Plan exceeds the fair market value of the assets of such Plan allocable to such benefits.

"INTEREST PERIOD" is determined in accordance with Section 3.9.

"LAWS" means all applicable statutes, laws, treaties, ordinances, tariff requirements, rules, regulations, orders, writs, injunctions, decrees, judgments, opinions, or interpretations of any Governmental Authority.

"LENDERS" means, on any date of determination, (a) the financial institutions named on Schedule 2.1 (as the same may be amended from time to time by Administrative Agent to reflect the

assignments made in accordance with Section 12.13(c) of this Agreement), and subject to the terms and conditions of this Agreement, their respective successors and assigns, but not any Participant who is not otherwise a party to this Agreement, and (b) the Designated Lenders, if any; provided, however, that the term "Lender" shall exclude each Designated Lender when used in reference to a Borrowing (except to the extent a Designated Lender is the obligee of a Borrowing actually funded by it pursuant to Section 2.1(b) hereof), the Commitment or terms relating to the Borrowings (except as noted above) and the Commitment.

"LIENS" means a mortgage, pledge, lien, security interest or other charge or encumbrance, or any other type of preferential arrangement to secure or provide for the payment of any obligation of any Person, whether arising by contract, operation of law or otherwise (including, without limitation, the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement).

"LIQUIDITY BANK" means for any Designated Lender, at any date of determination, the collective reference to the financial institutions which at such date are providing liquidity or credit support facilities to or for the account of such Designated Lender to fund such Designated Lender's obligations hereunder or to support the securities, if any, issued by such Designated Lender to fund such obligations.

"LITIGATION" means any action by or before any Governmental Authority.

"LOAN PAPERS" means (a) this Agreement, certificates delivered pursuant to this Agreement, and Exhibits and Schedules hereto, (b) all agreements, documents, or instruments in favor of Agents or Lenders (or Administrative Agent on behalf of Lenders) delivered pursuant to this Agreement or otherwise delivered in connection with all or any part of the Obligation, and (c) all renewals, extensions, or restatements of, or amendments or supplements to, any of the foregoing.

"MATURITY DATE" means April 7, 2003.

"MAXIMUM AMOUNT" and "MAXIMUM RATE" respectively mean, for each Lender, the maximum non-usurious amount and the maximum non-usurious rate of interest which, under applicable Law, such Lender is permitted to contract for, charge, take, reserve, or receive on the Obligation.

"MOODY'S" means Moody's Investors Service, Inc. or any successor thereto.

"MULTIEMPLOYER PLAN" means a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA to which the Company or any ERISA Affiliate of the Company is making or accruing an obligation to make contributions, or has within any of the preceding five (5) years made or accrued an obligation to make contributions.

"MULTIPLE EMPLOYER PLAN" means an employee benefit plan other than a Multiemployer Plan, subject to Title IV of ERISA to which the Company or any ERISA Affiliate, and one or more employers other than the Company or an ERISA Affiliate, is making or accruing an obligation to make contributions or, in the event that any such plan has been terminated, to which the Company or any ERISA Affiliate made or accrued an obligation to make contributions during any of the five (5) plan years preceding the date of termination of such plan.

"NEBRASKA ENERGY" means Nebraska Energy, L.L.C., a Kansas limited liability company.

"NET DEBT" means for any Person, as of any date of determination, the excess of (x) the aggregate amount of all Debt of such Person and its Subsidiaries on a Consolidated basis over (y) the sum of the Cash Holdings of such Person and its Subsidiaries on a Consolidated basis.

"NET WORTH" of any Person means, as of any date of determination, the excess of total assets of such Person over total liabilities of such Person, total assets and total liabilities each to be determined in accordance with GAAP.

"NON-RECOURSE DEBT" means Debt incurred by any non-material, Non-Borrowing Subsidiary (as defined in the Primary Credit Agreement) to finance the acquisition (other than any acquisition from the Company or any Subsidiary) or construction of a project, which Debt does not permit or provide for recourse against the Company or any Subsidiary of the Company (other than the Subsidiary that is to acquire or construct such project) or any property or asset of the Company or any Subsidiary of the Company (other than property or assets of the Subsidiary that is to acquire or construct such project).

"NOTES" means, at the time of any determination thereof, all outstanding and unpaid Term Notes.

"NOTICE OF BORROWING" is defined in Section 2.3(a).

"NOTICE OF CONVERSION" is defined in Section 3.10.

"NWP" means Northwest Pipeline Corporation, a Delaware corporation.

"OBLIGATION" means all present and future indebtedness, liabilities, and obligations, and all renewals and extensions thereof, or any part thereof, now or hereafter owed to Administrative Agent, any other Agent, or any Lender arising from, by virtue of, or pursuant to any Loan Paper, together with all interest accruing thereon, fees, costs, and reasonable expenses (including, without limitation, all reasonable attorneys' fees and expenses incurred in the enforcement or collection thereof) payable under the Loan Papers.

"OTHER TAXES" shall have the meaning assigned to it in Section 4.6(b) hereof.

"PARTICIPANT" is defined in Section 12.13(e).

"PBGC" means the Pension Benefit Guaranty Corporation, or any successor thereof, established pursuant to ERISA.

"PERMITTED LIENS" means Liens specifically described on Schedule I.

"PERSON" means an individual, sole proprietorship, partnership, joint venture, association, trust, estate, business trust, corporation, not-for-profit corporation, sovereign government or agency, instrumentality, or political subdivision thereof, or any similar entity or organization.

"PIGAP II" means WilPro Energy Services (PIGAP II) Limited, a Cayman Islands corporation.

"PLAN" means an employee pension benefit plan (other than a Multiemployer Plan) as defined in Section 3(2) of ERISA currently maintained by, or to which contributions have been made at any time after December 31, 1984 by the Company or any ERISA Affiliate for employees of the Company or any such ERISA Affiliate and covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code.

"POWERTEL" means PowerTel Limited, an Australian corporation.

"POTENTIAL DEFAULT" means the occurrence of any event or existence of any circumstance which, with the giving of notice or lapse of time or both, would become a Default.

"PRIMARY CREDIT AGREEMENT" means the U.S. $1,000,000,000, Second Amended and Restated Credit Agreement dated as of July 23, 1997, by and among the Company and the other borrowers named therein, as borrowers, the banks named therein, as lenders, the banks named therein, as co-agents, and Citibank, N.A., as agent, as modified and amended by that certain Amendment to Second Amended and Restated Credit Agreement dated as of July 23, 1997, dated as of January 26, 1999 and that certain Second Amendment to Second Amended and Restated Credit Agreement dated as of January 24, 2000, and as the same may be from time to time further modified or amended.

"PRIME RATE" means the per annum rate of interest established from time to time by Credit Lyonnais New York Branch, as its general reference rate of interest for short-term commercial loans in Dollars to domestic borrowers, which rate may not be the lowest rate of interest charged by Credit Lyonnais New York Branch on similar loans.

"PRINCIPAL DEBT" means, on any date of determination, the aggregate unpaid principal balance of all Borrowings under the Term Facility.

"PRINCIPAL SUBSIDIARIES" means each of NWP, TGPL, TGT, WFS, WPC and WPL.

"PRO RATA or PRO RATA PART" means on any date of determination for any Lender, (a) at any time prior to the termination of the Commitment, the proportion that such Lender's Committed Sum bears to the Commitment, or (b) at any time on or after the termination of the Commitment, the proportion that the sum of the Principal Debt owed to such Lender bears to the sum of the Principal Debt.

"PUBLIC FILINGS" means the Company's annual report on Form 10-K for the year ended December 31, 1999.

"REGISTER" is defined in Section 12.13(c).

"REGULATION D" means Regulation D of the Board of Governors of the Federal Reserve System, as amended.

"REGULATION U" means Regulation U of the Board of Governors of the Federal Reserve System, as amended.

"RELATED PARTY" of any Person means any corporation, partnership, joint venture or other entity of which more than 10% of the outstanding capital stock or other equity interests having ordinary voting power to elect a majority of the board of directors of such corporation, partnership, joint venture or other entity or others performing similar functions (irrespective of whether or not at the time capital stock or other equity interests of any other class or classes of such corporation, partnership, joint venture or other entity shall or might have voting power upon the occurrence of any contingency) is at the time directly or indirectly owned by such Person or which owns at the time directly or indirectly more than 10% of the outstanding capital stock or other equity interests having ordinary voting power to elect a majority of the board of directors of such Person or others performing similar functions (irrespective of whether or not at the time capital stock or other equity interests of any other class or classes of such corporation, partnership, joint venture or other entity shall or might have voting power upon the occurrence of any contingency).

"REPRESENTATIVES" means representatives, officers, directors, employees, attorneys, and agents.

"RESERVE REQUIREMENT" means, at any time, the maximum rate at which reserves (including, without limitation, any marginal, special, supplemental, or emergency reserves) are required to be maintained under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) by member banks of the Federal Reserve System against, in the case of Eurodollar Rate Borrowings, "Eurocurrency liabilities" (as such term is used in Regulation D). Without limiting the effect of the foregoing, the Reserve Requirement shall reflect any other reserves required to be maintained by such member banks with respect to (a) any category of liabilities which includes deposits by reference to which the Adjusted Eurodollar Rate is to be determined, or (b) any category of extensions of credit or other assets which include Eurodollar Rate Borrowings. The Adjusted Eurodollar Rate shall be adjusted automatically on and as of the effective date of any change in the Reserve Requirement.

"RESPONSIBLE OFFICER" means the chairman, president, chief executive officer, chief financial officer, senior vice president, or treasurer of the Company, or any other officer designated from time to time by the Board of Directors of the Company, which designated officer is acceptable to Administrative Agent.

"RIGHTS" means rights, remedies, powers, privileges, and benefits.

"S&P" means Standard & Poor's Ratings Group, a division of McGraw Hill, Inc., a New York corporation.

"SALE AND LEASE-BACK TRANSACTION" of any Person means any arrangement entered into by such Person or any Subsidiary of such Person, directly or indirectly, whereby such Person or any Subsidiary of such Person shall sell or transfer any property, whether now owned or hereafter acquired, and whereby such Person or any Subsidiary of such Person shall then or thereafter rent or lease as lessee such property or any part thereof or other property which such Person or any Subsidiary of such Person intends to use for substantially the same purpose or purposes as the property sold or transferred.

"SCHEDULE" means, unless specified otherwise, a schedule attached to this Agreement, as the same may be supplemented and modified from time to time in accordance with the terms of the Loan Papers.

"SEMINOLE" means Seminole Pipeline Company, a Delaware corporation.

"SUBORDINATED DEBT" means any Debt of the Company which is effectively subordinated to the obligations of the Company hereunder.

"SUBSIDIARY" means any corporation, partnership, joint venture, or other entity of which more than 50% of the outstanding capital stock or other equity interests having ordinary voting power (irrespective of whether or not at the time capital stock or other equity interest of any other class or classes of such corporation, partnership, joint venture or other entity shall or might have voting power upon the occurrence of any contingency) is at the time directly or indirectly owned by the Company.

"SYNDICATION AGENT" means, Commerzbank AG New York and Grand Cayman Branches and its respective permitted successors or assigns as "Syndication Agent" under this Agreement.

"TANGIBLE NET WORTH" of any Person means, as of any date of determination, the excess of total assets of such Person over total liabilities of such Person, total assets and total liabilities each to be

determined in accordance with GAAP, excluding, however, from the determination of total assets (a) patents, patent applications, trademarks, copyrights and trade names, (b) goodwill, organizational, experimental, research and development expense and other like intangibles, (c) treasury stock, (d) monies set apart and held in a sinking or other analogous fund established for the purchase, redemption or other retirement of capital stock or Subordinated Debt, and (e) unamortized debt discount and expense.

"TAXES" means, for any Person, taxes, assessments, or other governmental charges or levies of a similar nature imposed upon such Person, its income, or any of its properties, franchises, or assets.

"TERM FACILITY" means the credit facility described in and subject to the limitations of this Agreement.

"TERM NOTE" means a promissory note in substantially the form of Exhibit A, and all renewals and extensions of all or any part thereof.

"TERMINATION EVENT" means (a) a "reportable event", as such term is described in Section 4043 of ERISA (other than a "reportable event" not subject to the provision for thirty (30) day notice to the PBGC), or an event described in Section 4062(f) of ERISA, or (b) the withdrawal of the Company or any ERISA Affiliate from a Multiple Employer Plan during a plan year in which it was a "substantial employer," as such term is defined in Section 4001(a)(2) of ERISA, or the incurrence of liability by the Company or any ERISA Affiliate under Section 4064 of ERISA upon the termination of a Multiple Employer Plan, or (c) the distribution of a notice of intent to terminate a Plan pursuant to Section 4041(a)(2) of ERISA or the treatment of a Plan amendment as a termination under Section 4041 of ERISA, or (d) the institution of proceedings to terminate a Plan by the PBGC under Section 4042 of ERISA, or (e) any other event or condition which might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan.

"TGPL" means Transcontinental Gas Pipe Line Corporation, a Delaware corporation.

"TGT" means Texas Gas Transmission Corporation, a Delaware corporation.

"TYPE" means any type of Borrowing determined with respect to the interest option applicable thereto.

"UNUSED COMMITMENT" means, at any time during the Commitment Period a determination thereof is to be made, the difference between the Commitment and the Principal Debt.

"UNUSED FEE" shall have the meaning assigned to it in Section 5.3 hereof.

"WCG" means Williams Communications Group, Inc., a Delaware corporation.

"WFS" means Williams Field Services Group, Inc., a Delaware corporation.

"WHOLLY-OWNED" when used in connection with any Subsidiary shall mean a Subsidiary of which all of the issued and outstanding shares of stock (except shares required as directors' qualifying shares) shall be owned by the Company or one or more of its Wholly-owned Subsidiaries.

"WITHDRAWAL LIABILITY" shall have the meaning given such term under Part I of Subtitle E of Title IV of ERISA.

"WPC" means Williams Gas Pipelines Central, Inc., a Delaware corporation, formerly Williams Natural Gas Company.

"WPL" means Williams Pipe Line Company, a Delaware corporation.

1.2 Number and Gender of Words; Other References. Unless otherwise specified, in the Loan Papers (a) where appropriate, the singular includes the plural and vice versa, and words of any gender include each other gender, (b) heading and caption references may not be construed in interpreting provisions, (c) monetary references are to currency of the United States of America, (d) section, paragraph, annex, schedule, exhibit, and similar references are to the particular Loan Paper in which they are used, (e) references to "telecopy," "facsimile," "fax," or similar terms are to facsimile or telecopy transmissions, (f) references to "including" mean including without limiting the generality of any description preceding that word, (g) the rule of construction that references to general items that follow references to specific items are limited to the same type or character of those specific items is not applicable in the Loan Papers, (h) references to any Person include that Person's heirs, personal representatives, successors, trustees, receivers, and permitted assigns, (i) references to any Law include every amendment or supplement to it, rule and regulation adopted under it, and successor or replacement for it, and (j) references to any Loan Paper or other document include every renewal and extension of it, amendment and supplement to it, and replacement or substitution for it.

1.3 Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP and policies consistent with those applied in the preparation of the consolidated financial statements referred to in Section 7.5 hereof.

SECTION 2 BORROWING PROVISIONS.

2.1 Commitments; Borrowings from Designated Lenders. (a) Subject to and in reliance upon the terms, conditions, representations, and warranties in the Loan Papers, each Lender severally and not jointly agrees to lend to the Company such Lender's Pro Rata Part of one or more Borrowings under the Term Facility not to exceed such Lender's Committed Sum under the Term Facility; provided that (i) each such Borrowing must occur on a Business Day during the Commitment Period; (ii) each such Borrowing shall be in an amount not less than $50,000,000 or a greater integral multiple of $1,000,000 (or the remaining balance of the Unused Commitment, if less); and (iii) on any date of determination, the Commitment Usage shall never exceed the Commitment. No amount borrowed and repaid under this Agreement may be reborrowed by the Company hereunder.

(b) For any Lender which is a Designating Lender, any Borrowing to be made from such Lender may from time to time be made from its Designated Lender in such Designated Lender's sole discretion, and nothing herein shall constitute a commitment to lend by such Designated Lender; provided that if any Designated Lender elects not to, or fails to, make any such Borrowing available, its Designating Lender hereby agrees that it shall make such Borrowing available pursuant to the terms hereof. Any Borrowing actually funded by a Designated Lender shall constitute a utilization of the Designating Lender's Pro Rata Part of the Commitment for all purposes hereunder.

2.2. Termination of Commitments. Without premium or penalty, and upon giving not less than three Business Days prior written and irrevocable notice to Administrative Agent, the Company may terminate in whole or in part the unused portion of the Commitment; provided that: (a) each partial termination shall be in an amount of not less than $10,000,000 or a greater integral multiple of $1,000,000; (b) the amount of the Commitment may not be reduced below the Commitment Usage after giving effect to any loan repayments on the date of such reduction; and (c) each reduction shall be allocated Pro Rata among the Lenders in accordance with their respective Pro Rata Parts. Promptly after

receipt of such notice of termination or reduction, Administrative Agent shall notify each Lender of the proposed cancellation or reduction. Such termination or partial reduction of the Commitment shall be effective on the Business Day specified in Borrower's notice (which date must be during the Commitment Period and at least three (3) Business Days after the Company's delivery of such notice). In the event that the Commitment is reduced to zero at a time when there shall be no Principal Debt, this Agreement shall be terminated to the extent specified in Section 12.14, and all commitment fees and other fees then earned and unpaid hereunder and all other amounts of the Obligation relating to the Term Facility then due and owing shall be immediately due and payable, without notice or demand by Administrative Agent or any Lender.

2.3. Borrowing Procedure. The following procedures apply to Borrowings:

(a) Each Borrowing shall be made on the Company's notice (a "Notice of Borrowing," substantially in the form of Exhibit B-1) to Administrative Agent requesting that Lenders fund a Borrowing on a certain date (the "Borrowing Date"), which notice (i) shall be irrevocable and binding on the Company, (ii) shall specify the Borrowing Date, amount, Type, and (for a Borrowing comprised of Eurodollar Rate Borrowings) Interest Period, and (iii) must be received by Administrative Agent no later than 11:00 a.m. New York, New York time on the third (3rd) Business Day preceding the Borrowing Date for any Eurodollar Rate Borrowing or on the Borrowing Date for any Base Rate Borrowing. Administrative Agent shall timely notify each Lender with respect to each Notice of Borrowing.

(b) Each Lender shall remit its Pro Rata Part of each requested Borrowing to Administrative Agent's principal office in New York, New York, in funds which are or will be available for immediate use by Administrative Agent by 1:00 p.m. New York, New York time on the Borrowing Date therefor. Subject to receipt of such funds, Administrative Agent shall (unless to its actual knowledge any of the conditions precedent therefor have not been satisfied by the Company or waived by Determining Lenders) make such funds available to the Company by causing such funds to be deposited to the Company's account as designated to Administrative Agent by the Company. Notwithstanding the foregoing, unless Administrative Agent shall have been notified by a Lender prior to a Borrowing Date that such Lender does not intend to make available to Administrative Agent such Lender's Pro Rata Part of the applicable Borrowing, Administrative Agent may assume that such Lender has made such proceeds available to Administrative Agent on such date, as required herein, and Administrative Agent may (unless to its actual knowledge any of the conditions precedent therefor have not been satisfied by the Company or waived by Determining Lenders), in reliance upon such assumption (but shall not be required to), make available to the Company a corresponding amount in accordance with the foregoing terms, but, if such corresponding amount is not in fact made available to Administrative Agent by such Lender on such Borrowing Date, Administrative Agent shall be entitled to recover such corresponding amount on demand (i) from such Lender, together with interest at the Federal Funds Rate during the period commencing on the date such corresponding amount was made available to the Company and ending on (but excluding) the date Administrative Agent recovers such corresponding amount from such Lender, or (ii) if such Lender fails to pay such corresponding amount forthwith upon such demand, then from the Company, together with interest at a rate per annum equal to the applicable rate for such Borrowing during the period commencing on such Borrowing Date and ending on (but excluding) the date Administrative Agent recovers such corresponding amount from the Company. No Lender shall be responsible for the failure of any other Lender to make its Pro Rata Part of any Borrowing.

SECTION 3 TERMS OF PAYMENT

3.1 Loan Accounts, Notes, and Payments.

(a) Principal Debt shall be evidenced by the Term Notes, one payable to each Lender in the stated principal amount of its Committed Sum.

(b) The Principal Debt owed to each Lender shall be further evidenced by one or more loan accounts or records maintained by such Lender in the ordinary course of business. The loan accounts or records maintained by the Administrative Agent (including, without limitation, the Register) and each Lender shall be conclusive evidence absent manifest error of the amount of the Borrowings made by the Company from each Lender under the Term Facility and the interest and principal payments thereon. Any failure to so record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Company under the Loan Papers to pay any amount owing with respect to the Obligation.

(c) Each payment or prepayment on the Obligation is due and must be paid at Administrative Agent's principal office in New York, New York in funds which are or will be available for immediate use by Administrative Agent by 1:00 p.m., New York, New York time on the day due. Payments made after 1:00 p.m., New York, New York time, shall be deemed made on the Business Day next following. Administrative Agent shall pay to each Lender any payment or prepayment to which such Lender is entitled hereunder on the same day Administrative Agent shall have received the same from the Company; provided such payment or prepayment is received by Administrative Agent prior to 1:00 p.m. New York, New York time and otherwise before 1:00 p.m. New York, New York time on the Business Day next following. If and to the extent Administrative Agent shall not make such payments to Lenders when due as set forth in the preceding sentence, such unpaid amounts shall accrue interest, payable by Administrative Agent, at the Federal Funds Rate from the due date until (but not including) the date on which Administrative Agent makes such payments to Lenders.

3.2 Interest and Principal Payments.

(a) Interest on each Eurodollar Rate Borrowing shall be due and payable as it accrues on the last day of its respective Interest Period and on the Maturity Date, as applicable; provided that if any Interest Period is a period greater than three (3) months, then accrued interest shall also be due and payable on the date three (3) months after the commencement of such Interest Period. Interest on each Base Rate Borrowing shall be due and payable as it accrues on the last day of each calendar month, and on the Maturity Date.

(b) The Commitment shall be permanently canceled and reduced to $0 at the end of the Commitment Period. The Company shall pay on the Maturity Date all outstanding Principal Debt, together with all accrued and unpaid interest and fees.

(c) On any date of determination, if the Commitment Usage exceeds the Commitment then in effect then the Company shall make a mandatory prepayment of the Principal Debt in at least the amount of such excess, together with (i) all accrued and unpaid interest on the principal amount so prepaid and (ii) any Consequential Loss arising as a result thereof.

(d) After giving Administrative Agent advance written notice of the intent to prepay, the Company may voluntarily prepay all or any part of the Principal Debt from time to time and

at any time, in whole or in part, without premium or penalty; provided that: (i) such notice must be received by Administrative Agent by 1:00 p.m. New York, New York time on (A) the third Business Day preceding the date of prepayment of a Eurodollar Rate Borrowing, and (B) one Business Day preceding the date of prepayment of a Base Rate Borrowing; (ii) each such partial prepayment must be in a minimum amount of at least $5,000,000 or a greater integral multiple of $1,000,000 thereof (if a Eurodollar Rate Borrowing or a Base Rate Borrowing); and (iii) all accrued interest on the Obligation to be prepaid must also be paid in full, to the date of such prepayment. Each notice of prepayment shall specify the prepayment date, the Type of Borrowing(s) and amount(s) of such Borrowing(s) to be prepaid and shall constitute a binding obligation of the Company to make a prepayment on the date stated therein.

3.3 Interest Options. Except where specifically otherwise provided, Borrowings shall bear interest at a rate per annum equal to the lesser of (a) as to the respective Type of Borrowing (as designated by the Company in accordance with this Agreement), the Base Rate plus the Applicable Margin for Base Rate Borrowings, the Adjusted Eurodollar Rate plus the Applicable Margin for Eurodollar Rate Borrowings, as the case may be, and (b) the Maximum Rate. Each change in the Base Rate or the Maximum Rate subject to the terms of this Agreement, will become effective, without notice to the Company or any other Person, upon the effective date of such change.

3.4. Quotation of Rates. It is hereby acknowledged that a Responsible Officer or other appropriately designated officer of the Company may call Administrative Agent on or before the date on which a Notice of Borrowing is to be delivered by the Company in order to receive an indication of the rates then in effect, but such indicated rates shall neither be binding upon Administrative Agent or Lenders nor affect the rate of interest which thereafter is actually in effect when the Notice of Borrowing is given.

3.5 Default Rate. At the option of Determining Lenders and to the extent permitted by Law, all past-due Principal Debt and accrued interest thereon shall bear interest from maturity (whether stated or by acceleration) at the Default Rate until paid, regardless whether such payment is made before or after entry of a judgment.

3.6 Interest Recapture. If the designated rate applicable to any Borrowing exceeds the Maximum Rate, the rate of interest on such Borrowing shall be limited to the Maximum Rate, but any subsequent reductions in such designated rate shall not reduce the rate of interest thereon below the Maximum Rate until the total amount of interest accrued thereon equals the amount of interest which would have accrued thereon if such designated rate had at all times been in effect. In the event that at maturity (stated or by acceleration), or at final payment of the Principal Debt, the total amount of interest paid or accrued is less than the amount of interest which would have accrued if such designated rates had at all times been in effect, then, at such time and to the extent permitted by Law, the Company shall pay an amount equal to the difference, if any, by which (a) the lesser of the amount of interest which would have accrued if such designated rates had at all times been in effect and the amount of interest which would have accrued if the Maximum Rate had at all times been in effect, exceeds (b) the amount of interest actually paid or accrued on the Principal Debt.

3.7 Interest Calculations.

(a) All payments of interest shall be calculated on the basis of actual number of days (including the first day but excluding the last day) elapsed but computed as if each calendar year consisted of (i) 360 days in the case of a Eurodollar Rate Borrowing or a Base Rate Borrowing calculated with reference to the Federal Funds Rate (unless such calculation would result in the interest on the Borrowings exceeding the Maximum Rate in which event such interest shall be calculated on the basis of a year of 365 or 366 days, as the case may be) and (ii) 365 or 366 days, as the case may be, in the case of a Base Rate Borrowing calculated with reference to the Prime Rate. All interest rate determinations and calculations by Administrative Agent shall be conclusive and binding absent manifest error.

(b) The provisions of this Agreement relating to calculation of the Base Rate and the Adjusted Eurodollar Rate are included only for the purpose of determining the rate of interest or other amounts to be paid hereunder that are based upon such rate.

3.8 Maximum Rate. Regardless of any provision contained in any Loan Paper, no Lender shall ever be entitled to contract for, charge, take, reserve, receive, or apply, as interest on the Obligation, or any part thereof, any amount in excess of the Maximum Rate, and, if a Lender ever does so, then such excess shall be deemed a partial prepayment of principal and treated hereunder as such and any remaining excess shall be refunded to the Company. In determining if the interest paid or payable exceeds the Maximum Rate, the Company and Lenders shall, to the maximum extent permitted under applicable Law, (a) treat all Borrowings as but a single extension of credit (and Lenders and the Company agree that such is the case and that provision herein for multiple Borrowings is for convenience only), (b) characterize any nonprincipal payment otherwise payable under the Loan Papers as an expense, fee, or premium, rather than as interest, (c) exclude voluntary prepayments and the effects thereof, and (d) amortize, prorate, allocate, and spread the total amount of interest throughout the entire contemplated term of the Obligation; provided that, if the Obligation is paid and performed in full prior to the end of the full contemplated term thereof, and if the interest received for the actual period of existence thereof exceeds the Maximum Amount, Lenders shall refund such excess, and, in such event, Lenders shall not, to the extent permitted by Law, be subject to any penalties provided by any Laws for contracting for, charging, taking, reserving, or receiving interest in excess of the Maximum Amount.

3.9 Interest Periods. When the Company requests any Eurodollar Rate Borrowing, the Company may elect the interest period (each an "Interest Period") applicable thereto, which shall be, at the Company's option, in respect of any Eurodollar Rate Borrowing, one, two, three, or six months; provided, however, that: (a) the initial Interest Period for a Eurodollar Rate Borrowing shall commence on the date of such Borrowing (including the date of any conversion thereto), and each Interest Period occurring thereafter in respect of such Borrowing shall commence on the day on which the next preceding Interest Period applicable thereto expires; (b) if any Interest Period for a Eurodollar Rate Borrowing begins on a day for which there is no numerically corresponding Business Day in the calendar month at the end of such Interest Period, such Interest Period shall end on the next Business Day immediately following what otherwise would have been such numerically corresponding day in the calendar month at the end of such Interest Period (unless such date would be in a different calendar month from what would have been the month at the end of such Interest Period, or unless there is no numerically corresponding day in the calendar month at the end of the Interest Period; whereupon, such Interest Period shall end on the last Business Day in the calendar month at the end of such Interest Period); (c) no Interest Period may be chosen with respect to any portion of the Principal Debt which would extend beyond the scheduled repayment date (including any dates on which mandatory prepayments are required to be made) for such portion of the Principal Debt; and (d) no more than an aggregate of six (6) Interest Periods shall be in effect at one time.

3.10 Conversions. The Company may (a) convert a Eurodollar Rate Borrowing on the last day of an Interest Period to a Base Rate Borrowing, (b) convert a Base Rate Borrowing at any time to a Eurodollar Rate Borrowing, and (c) elect a new Interest Period (in the case of a Eurodollar Rate Borrowing), by giving notice (a "Notice of Conversion," substantially in the form of Exhibit B-2) of such intent no later than 11:00 a.m. New York, New York, time on the third Business Day prior to the date of conversion or the last day of the Interest Period, as the case may be (in the case of a conversion to a Eurodollar Rate Borrowing or an election of a new Interest Period), and no later than 11:00 a.m. New York, New York time one Business Day prior to the last day of the Interest Period (in the case of a conversion to a Base Rate Borrowing); provided that the principal amount converted to, or continued as, a Eurodollar Rate Borrowing shall be in an amount not less than $5,000,000 or a greater integral multiple of $1,000,000. Administrative Agent shall timely notify each Lender with respect to each Notice of Conversion. Absent the Company's Notice of Conversion or election of a new Interest Period, a Eurodollar Rate Borrowing shall be deemed converted to a Base Rate Borrowing effective as of the expiration of the Interest Period applicable thereto. No Eurodollar Rate Borrowing may be either made or continued as a Eurodollar Rate Borrowing, and no Base Rate Borrowing may be converted to a Eurodollar Rate Borrowing, if the interest rate for such Eurodollar Rate Borrowing would exceed the Maximum Rate.

3.11 Order of Application.

(a) So long as no Default or Potential Default has occurred and is continuing, payments and prepayments of the Obligation shall be applied in the order and manner as the Company may direct; provided that, each such payment or prepayment (other than payments of fees payable solely to any Agent or a specific Lender) shall be allocated among Lenders in proportion to their respective Pro Rata Parts appropriate for the Term Facility in respect of which such payments were made.

(b) If a Default or Potential Default has occurred and is continuing (or if the Company fails to give directions as permitted under Section 3.11(a)), any payment or prepayment (including proceeds from the exercise of any Rights) shall be applied in the following order: (i) to the ratable payment of all fees and expenses for which Agents or Lenders have not been paid or reimbursed in accordance with the Loan Papers (as used in this Section 3.11(b), a "ratable payment" for any Lender or Agents shall be, on any date of determination, that proportion which the portion of the total fees and indemnities owed to such Lender or Agents bears to the total aggregate fees and indemnities owed to all Lenders or Agents on such date of determination); (ii) to the Pro Rata payment of all accrued and unpaid interest on the Principal Debt; (iii) to the Pro Rata payment of the remaining Principal Debt in such order as Determining Lenders may elect (provided that, Determining Lenders will apply such proceeds in an order that will minimize any Consequential Loss); and (vii) to the payment of the remaining Obligation in the order and manner Determining Lenders deem appropriate.

3.12 Sharing of Payments, Etc.. If any Lender shall obtain any payment (whether voluntary, involuntary, or otherwise, including, without limitation, as a result of exercising its Rights under Section 3.13) which is in excess of its ratable share of any such payment, such Lender shall purchase from the other Lenders such participations as shall be necessary to cause such purchasing Lender to share the excess payment ratably with each of them; provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing Lender, the purchase shall be rescinded and the purchase price restored to the extent of such recovery. the Company agrees that any Lender so purchasing a participation from another Lender pursuant to this Section may to the fullest extent permitted by Law, exercise all of its Rights of payment (including the Right of offset) with respect to such

participation as fully as if such Lender were the direct creditor of the Company in the amount of such participation.

3.13 Offset. Upon the occurrence and during the continuance of a Default, each Lender shall be entitled to exercise (for the benefit of all Lenders in accordance with Section 3.12) the Rights of offset and/or banker's Lien against each and every account and other property, or any interest therein, which the Company may now or hereafter have with, or which is now or hereafter in the possession of, such Lender to the extent of the full amount of the Obligation owed to such Lender.

3.14 Booking Borrowings. To the extent permitted by Law, any Lender may make, carry, or transfer its Borrowings at, to, or for the account of any of its branch offices or the office of any of its Affiliates; provided that no Affiliate shall be entitled to receive any greater payment under Section 4 than the transferor Lender would have been entitled to receive with respect to such Borrowings.

SECTION 4 CHANGE IN CIRCUMSTANCES.

4.1 Increased Cost and Reduced Return.

(a) If, after the date hereof, the adoption of any applicable law, rule, or regulation or any change in any applicable law, rule, or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, or compliance by any Lender (or its Applicable Lending Office) with any request or directive (whether or not having the force of law) of any such Governmental Authority:

(i) shall subject such Lender (or its Applicable Lending Office) to any Tax or other charge with respect to any Eurodollar Rate Borrowing, its Notes, or its obligation to loan Eurodollar Rate Borrowings, or change the basis of taxation of any amounts payable to such Lender (or its Applicable Lending Office) under this Agreement or its Notes in respect of any Eurodollar Rate Borrowings (other than with respect to taxes imposed on the taxable net income of such Lender by any jurisdiction within which such Lender is incorporated or organized or has its principal office, or within which such Applicable Lending Office is located, or by any other jurisdiction in which such Lender is deemed to be doing business);

(ii) shall impose, modify, or deem applicable any reserve, special deposit, assessment, or similar requirement (other than the Reserve Requirement utilized in the determination of the Adjusted Eurodollar Rate) relating to any extensions of credit or other assets of, or any deposits with or other liabilities or commitments of, such Lender (or its Applicable Lending Office), including the commitment of such Lender hereunder; or

(iii) shall impose on such Lender (or its Applicable Lending Office) or the London interbank market any other condition affecting this Agreement or its Notes or any of such extensions of credit or liabilities or commitments;

and the result of any of the foregoing is to increase the cost to such Lender (or its Applicable Lending Office) of making, converting into, continuing, or maintaining any Eurodollar Rate Borrowings or to reduce any sum received or receivable by such Lender (or its Applicable Lending Office) under this Agreement or its Notes with respect to any Eurodollar Rate Borrowing, then the Company shall pay to such Lender on demand such amount or amounts as will compensate such Lender for such increased cost or reduction

as provided in Section 4.1(c) below. If any Lender requests compensation by the Company under this Section 4.1(a), the Company may, by notice to such Lender (with a copy to Administrative Agent), suspend the obligation of such Lender to loan or continue Borrowings of the Type with respect to which such compensation is requested, or to convert Borrowings of any other Type into Borrowings of such Type, until the event or condition giving rise to such request ceases to be in effect (in which case the provisions of Section 4.4 shall be applicable); provided, that such suspension shall not affect the right of such Lender to receive the compensation so requested.

(b) If, after the date hereof, any Lender shall have determined that the adoption of any applicable Law regarding capital adequacy or any change therein or in the interpretation or administration thereof by any Governmental Authority charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such Governmental Authority has or would have the effect of reducing the rate of return on the capital of such Lender or any corporation controlling such Lender as a consequence of such Lender's obligations hereunder to a level below that which such Lender or such corporation could have achieved but for such adoption, change, request, or directive (taking into consideration its policies with respect to capital adequacy), then from time to time upon demand the Company shall pay to such Lender such additional amount or amounts as will compensate such Lender for such reduction; provided, however, that the Company shall not be obligated to pay any such additional amount or amounts incurred or accruing more than ninety (90) days prior to the date on which the affected Lender gives written notice thereof in accordance with Section 4.1(c) below.

(c) Each Lender shall promptly notify the Company and Administrative Agent of any event of which it has knowledge, occurring after the date hereof, which will entitle such Lender to compensation pursuant to this Section and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Lender, be otherwise disadvantageous to it. Any Lender claiming compensation under this Section shall furnish to the Company and Administrative Agent a statement setting forth in reasonable detail the additional amount or amounts to be paid hereunder which shall be presumed correct in the absence of manifest error. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

4.2 Limitation on Types of Loans. If on or prior to the first day of any Interest Period for any Eurodollar Rate Borrowing:

(a) Administrative Agent determines (which determination shall be conclusive) that by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the Eurodollar Rate for such Interest Period; or

(b) Determining Lenders determine (which determination shall be conclusive) and notify Administrative Agent that the Adjusted Eurodollar Rate will not adequately and fairly reflect the cost to the Lenders of funding Eurodollar Rate Borrowings for such Interest Period;

then Administrative Agent shall give the Company prompt notice thereof specifying the relevant amounts or periods, and so long as such condition remains in effect, the Lenders shall be under no obligation to fund additional Eurodollar Rate Borrowings, continue Eurodollar Rate Borrowings, or to convert Base Rate Borrowings into Eurodollar Rate Borrowings, and the Company shall, on the last day(s) of the then current Interest Period(s) for the outstanding Eurodollar Rate

Borrowings, either prepay such Borrowings or convert such Borrowings into Base Rate Borrowings in accordance with the terms of this Agreement.

4.3 Illegality. Notwithstanding any other provision of this Agreement, in the event that it becomes unlawful for any Lender or its Applicable Lending Office to make, maintain, or fund Eurodollar Rate Borrowings hereunder, then such Lender shall promptly notify the Company thereof and such Lender's obligation to make or continue Eurodollar Rate Borrowings and to convert other Base Rate Borrowings into Eurodollar Rate Borrowings shall be suspended until such time as such Lender may again make, maintain, and fund Eurodollar Rate Borrowings (in which case the provisions of Section 4.4 shall be applicable).

4.4 Treatment of Affected Loans. If the obligation of any Lender to fund Eurodollar Rate Borrowings or to continue, or to convert Base Rate Borrowings into Eurodollar Rate Borrowings, shall be suspended pursuant to Sections 4.1, 4.2, or 4.3 hereof, such Lender's Eurodollar Rate Borrowings shall be automatically converted into Base Rate Borrowings on the last day(s) of the then current Interest Period(s) for Eurodollar Rate Borrowings (or, in the case of a conversion required by Section 4.3 hereof, on such earlier date as such Lender may specify to the Company with a copy to Administrative Agent) and, unless and until such Lender gives notice as provided below that the circumstances specified in Sections 4.1, 4.2, or 4.3 hereof that gave rise to such conversion no longer exist:

(a) to the extent that such Lender's Eurodollar Rate Borrowings have been so converted, all payments and prepayments of principal that would otherwise be applied to such Lender's Eurodollar Rate Borrowings shall be applied instead to its Base Rate Borrowings; and

(b) all Borrowings that would otherwise be made or continued by such Lender as Eurodollar Rate Borrowings shall be made or continued instead as Base Rate Borrowings, and all Borrowings of such Lender that would otherwise be converted into Eurodollar Rate Borrowings shall be converted instead into (or shall remain as) Base Rate Borrowings.

If such Lender gives notice to the Company (with a copy to Administrative Agent) that the circumstances specified in Sections 4.1, 4.2, or 4.3 hereof that gave rise to the conversion of such Lender's Eurodollar Rate Borrowings pursuant to this Section 4.4 no longer exist (which such Lender agrees to do promptly upon such circumstances ceasing to exist) at a time when Eurodollar Rate Borrowings made by other Lenders are outstanding, such Lender's Base Rate Borrowings shall be automatically converted, on the first day(s) of the next succeeding Interest Period(s) for such outstanding Eurodollar Rate Borrowings, to the extent necessary so that, after giving effect thereto, all Eurodollar Rate Borrowings held by the Lenders and by such Lender are held Pro Rata (as to principal amounts, Types, and Interest Periods).

4.5 Compensation; Replacement of Lenders.

(a) Upon the request of any Lender, the Company shall pay to such Lender such amount or amounts as shall be sufficient (in the reasonable opinion of such Lender) to compensate it for any Consequential Loss; provided that, in each case, the Person claiming such Consequential Loss has furnished the Company with a reasonably detailed statement of such loss, which statement shall be conclusive in the absence of manifest error.

(b) If any Lender requests compensation under Sections 4.1 or if the Company is required to pay additional amounts to or for the account of any Lender pursuant to Section 4.6 (collectively, "Additional Amounts"), then the Company may, at its sole expense and effort, upon written notice to such Lender and Administrative Agent, require such Lender to assign and

delegate, without recourse, all its interests, Rights, and obligations under this Agreement and the other Loan Papers to an Eligible Assignee that shall assume such obligations; provided that, (i) the Company shall have received the prior written consent of Administrative Agent to any such assignment; (ii) such Lender shall have received payment from the Company of any Additional Amounts owed to such Lender by the Company for periods prior to the replacement of such Lender and any costs incurred as a result of such replacement of a Lender; (iii) such assignment will result in reduction or elimination of the Additional Amounts; and (iv) such assignment and acceptance shall be made in accordance with, and subject to the requirements and restrictions contained in, Section 12.13(b), other than the restrictions imposed by Section 12.13(b)(iv). A Lender shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling such Borrowing to require such assignment and delegation cease to apply.

4.6 Taxes.

(a) Any and all payments by the Company to or for the account of any Lender or Administrative Agent hereunder or under any other Loan Paper shall be made free and clear of and without deduction for any and all present or future Taxes, excluding, in the case of each Lender and Administrative Agent, Taxes imposed on its income and franchise Taxes imposed on it by any jurisdiction within which such Lender (or its Applicable Lending Office) or Administrative Agent (as the case may be) is incorporated or organized, or any political subdivision thereof, or by any other jurisdiction in which such Lender or Administrative Agent, as the case may be, is deemed to be doing business under the Tax Laws thereof (all such Non-Excluded Taxes referred to as "Non-Excluded Taxes"). If the Company shall be required by law to deduct any Non-Excluded Taxes from or in respect of any sum payable under this Agreement or any other Loan Paper to any Lender or Administrative Agent, (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 4.6) such Lender or Administrative Agent receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Company shall make such deductions, (iii) the Company shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law, and (iv) within thirty (30) days after the date of any payment of Non-Excluded Taxes, the Company shall furnish to Administrative Agent, at its address listed in Schedule 2.1, the original or a certified copy of a receipt evidencing payment thereof.

(b) In addition, the Company agrees to pay any and all present or future stamp or documentary taxes or charges or similar levies which arise from any payment made under this Agreement or any other Loan Paper or from the execution or delivery of, or otherwise with respect to, this Agreement or any other Loan Paper (hereinafter referred to as "Other Taxes").

(c) THE COMPANY AGREES TO INDEMNIFY EACH LENDER AND ADMINISTRATIVE AGENT FOR THE FULL AMOUNT OF NON-EXCLUDED TAXES THAT SHOULD HAVE BEEN WITHHELD BY THE COMPANY AND OTHER TAXES (INCLUDING, WITHOUT LIMITATION, ANY NON-EXCLUDED TAXES THAT SHOULD HAVE BEEN WITHHELD BY THE COMPANY OR OTHER TAXES IMPOSED OR ASSERTED BY ANY JURISDICTION ON AMOUNTS PAYABLE UNDER THIS SECTION 4.6) PAID BY SUCH LENDER OR ADMINISTRATIVE AGENT (AS THE CASE MAY BE) AND ANY LIABILITY (INCLUDING PENALTIES, INTEREST, AND EXPENSES) ARISING THEREFROM OR WITH RESPECT THERETO.

(d) Each Lender organized under the laws of a jurisdiction outside the United States, on or prior to the date of its execution and delivery of this Agreement in the case of each Lender

listed on the signature pages hereof and on or prior to the date on which it becomes a Lender in the case of each other Lender, and from time to time thereafter if requested in writing by the Company or Administrative Agent (but only so long as such Lender remains lawfully able to do so), shall provide the Company and Administrative Agent with (i) two duly completed, accurate, and signed copies of Internal Revenue Service Form 1001 or 4224, as appropriate, or any successor form prescribed by the Internal Revenue Service, certifying that such Lender is entitled to benefits under an income tax treaty to which the United States is a party which reduces the rate of withholding tax on payments of interest or certifying that the income receivable pursuant to this Agreement is effectively connected with the conduct of a trade or business in the United States, (ii) a duly completed, accurate and signed Internal Revenue Service Form W-8 or W-9, as appropriate, or any successor form prescribed by the Internal Revenue Service, and (iii) any other form or certificate required by any taxing authority (including any certificate required by Sections 871(h) and 881(c) of the Internal Revenue Code), certifying that such Lender is entitled to an exemption from or a reduced rate of tax on payments pursuant to this Agreement or any of the other Loan Papers.

(e) For any period with respect to which a Lender has failed to provide the Company and Administrative Agent with the appropriate form pursuant to Section 4.6(d) (unless such failure is due to a change in Law, other than any change in the nature of an anti-treaty shopping or limitation on benefits or similar provision, occurring subsequent to the date on which a form originally was required to be provided), such Lender shall not be entitled to indemnification under Section 4.6(a) or 4.6(b) with respect to Taxes imposed by the United States; provided, however, that should a Lender, which is otherwise exempt from or subject to a reduced rate of withholding tax, become subject to Taxes because of its failure to deliver a form required hereunder, the Company shall take such steps as such Lender shall reasonably request to assist such Lender to recover such Taxes.

(f) If the Company is required to pay additional amounts to or for the account of any Lender pursuant to this Section 4.6, then such Lender will agree to use reasonable efforts to change the jurisdiction of its Applicable Lending Office so as to eliminate or reduce any such additional payment which may thereafter accrue if such change, in the judgment of such Lender, is not otherwise disadvantageous to such Lender.

(g) Without prejudice to the survival of any other agreement of the Company hereunder, the agreements and obligations of the Company contained in this Section 4.6 shall survive the termination of the Commitment and the payment in full of the Notes.

SECTION 5 FEES

5.1 Treatment of Fees. Except as otherwise provided by Law, the fees described in this Section 5: (a) do not constitute compensation for the use, detention, or forbearance of money, (b) are in addition to, and not in lieu of, interest and expenses otherwise described in this Agreement, (c) shall be payable in accordance with Section 3.1, (d) shall be non-refundable, (e) shall, to the fullest extent permitted by Law, bear interest, if not paid when due, at the Default Rate, and (f) shall be calculated on the basis of actual number of days (including the first day but excluding the last day) elapsed, but computed as if each calendar year consisted of 360 days.

5.2 Fees of Administrative Agent and Arranger. The Company shall pay to Administrative Agent or Arranger, as the case may be, solely for their respective accounts, the fees described in that certain separate letter agreement dated as of January 26, 2000], between the Company, Administrative

Agent, and Arranger, which payments shall be made on the dates specified, and in amounts calculated in accordance with, such letter agreement.

5.3 Commitment Fee. The Company shall pay a commitment fee equal to 0.125% per annum on the average daily amount of the Unused Commitment during the Commitment Period, payable to the Administrative Agent (for the Pro Rata benefit of the Lenders) on the last day of the Commitment Period (the "Unused Fee").

SECTION 6 CONDITIONS PRECEDENT

6.1 Conditions Precedent to Closing. This Agreement shall not become effective unless Administrative Agent has received all of the agreements, documents, instruments, and other items described on Schedule 6.1.

6.2 Conditions Precedent to Each Borrowing. In addition to the conditions stated in Section 6.1, Lenders will not be obligated to fund (as opposed to continue or convert) any Borrowing, unless on the date of such Borrowing (and after giving effect thereto): (a) Administrative Agent shall have timely received therefor a Notice of Borrowing; (b) all of the representations and warranties of the Company set forth in the Loan Papers are true and correct in all material respects on and as of the date of Borrowing as if made on and as of such date; (c) no Default or Potential Default shall have occurred and be continuing on such date or after giving effect to the Borrowing requested; and (d) the funding of such Borrowings is permitted by Law. Each Notice of Borrowing delivered to Administrative Agent shall constitute the representation and warranty by the Company to Administrative Agent that the statements in clauses (b), (c) and (d) above are true and correct in all respects. Each condition precedent in this Agreement is material to the transactions contemplated in this Agreement, and time is of the essence in respect of each thereof. Subject to the prior approval of Determining Lenders, Lenders may fund any Borrowing without all conditions being satisfied, but, to the extent permitted by Law, the same shall not be deemed to be a waiver of the requirement that each such condition precedent be satisfied as a prerequisite for any subsequent funding or issuance, unless Determining Lenders specifically waive each such item in writing.

SECTION 7 REPRESENTATIONS AND WARRANTIES. To induce Lenders to enter into this Agreement and to make the loans herein provided for, the Company hereby covenants, represents and warrants to the Administrative Agent and to each Lender that:

7.1 Organization and Good Standing. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all corporate powers and all governmental licenses, authorizations, certificates, consents and approvals required to carry on its business as now conducted in all material respects, except for those licenses, authorizations, certificates, consents and approvals the failure to have which could not reasonably be expected to have a material adverse effect on the business, assets, condition or operation of the Company and its Subsidiaries taken as a whole. Each Subsidiary of the Company is duly organized or formed, validly existing and in good standing under the laws of its jurisdiction of incorporation or formation, except where the failure to be so organized, existing and in good standing could not reasonably be expected to have a material adverse effect on the business, assets, condition or operations of the Company and its Subsidiaries taken as a whole. Each Subsidiary has all powers and all governmental licenses, authorizations, certificates, consents and approvals required to carry on its business as now conducted in all material respects, except for those licenses, authorizations, certificates, consents and approvals the failure to have which could not reasonably be expected to have a material adverse effect on the business, assets, condition or operation of the Company and its Subsidiaries taken as a whole.

7.2 Authorization and Power. The execution, delivery and performance by the Company of this Agreement and the consummation of the transactions contemplated by this Agreement are within the Company's corporate powers, have been duly authorized by all necessary corporate action, do not contravene (a) the Company's charter or by-laws or (b) law or any contractual restriction binding on or affecting the Company and will not result in or require the creation or imposition of any Lien prohibited by this Agreement. At the time of each Borrowing, such Borrowing and the use of the proceeds of such Borrowing will be within the Company's corporate powers, will have been duly authorized by all necessary corporate action, will not contravene (i) the Company's charter or by-laws or (ii) law or any contractual restriction binding on or affecting the Company and will not result in or require the creation or imposition of any Lien prohibited by this Agreement.

7.3 Approvals and Consents. No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution, delivery and performance by the Company of this Agreement or the consummation of the transactions contemplated by this Agreement. At the time of each Borrowing, no authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body will be required for such Borrowing or the use of the proceeds of such Borrowing.

7.4 Enforceable Obligation. This Agreement has been duly executed and delivered by the Company, and is the legal, valid and binding obligation of the Company, enforceable in accordance with its terms, except as such enforceability may be limited by any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally and by general principles of equity. The Notes of the Company are, the legal, valid and binding obligations of the Company enforceable against the Company in accordance with their respective terms, except as such enforceability may be limited by any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditor's rights generally and by general principles of equity.

7.5 Financial Condition. The Consolidated balance sheet of the Company and its Subsidiaries as at December 31,1999, and the related Consolidated statements of income and cash flows of the Company and its Subsidiaries for the fiscal year then ended, duly certified by an authorized financial officer of the Company, fairly present, the Consolidated financial condition of the Company and its Subsidiaries as at such date and the Consolidated results of operations of the Company and its Subsidiaries for the year ended on such date, all in accordance with GAAP consistently applied. Since December 31, 1999, there has been no material adverse change in the condition or operations of the Company or its Subsidiaries.

7.6 No Material Controversies. Except as set forth in the Public Filings or in Schedule II or as otherwise disclosed in writing to the Administrative Agent after the date hereof and approved by the Administrative Agent and the Determining Lenders, there is no pending or, to the knowledge of the Company, threatened action or proceeding affecting the Company or any Subsidiary before any court, governmental agency or arbitrator, which could reasonably be expected to materially and adversely affect the financial condition or operations of the Company and its Subsidiaries taken as a whole or which purports to affect the legality, validity, binding effect or enforceability of this Agreement.

7.7 Investment Company. The Company is not an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

7.8 ERISA Compliance. No Termination Event has occurred or is reasonably expected to occur with respect to any Plan for which an Insufficiency exists. Neither the Company nor any ERISA

Affiliate has received any notification that any Multiemployer Plan is in reorganization or has been terminated, within the meaning of Title IV of ERISA, and the Company is not aware of any reason to expect that any Multiemployer Plan is to be in reorganization or to be terminated within the meaning of Title IV of ERISA.

7.9 Taxes. As of the date of this Agreement, the United States federal income tax returns of the Company and its material Subsidiaries (other than material Subsidiaries not in existence on December 31, 1995) have been examined through the fiscal year ended December 31, 1995. The Company and its Subsidiaries have filed all United States Federal income tax returns and all other material domestic tax returns which are required to be filed by them and have paid, or provided for the payment before the same become delinquent of, all taxes due pursuant to such returns or pursuant to any assessment received by the Company or any such Subsidiary, other than those taxes contested in good faith by appropriate proceedings. The charges, accruals and reserves on the books of the Company and its material Subsidiaries in respect of taxes are adequate.

7.10 Holding Company. The Company is not a "holding company," or a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company," or a "public utility" within the meaning of the Public Utility Holding Company Act of 1935, as amended.

7.11 Environmental Compliance. Except as set forth in the Public Filings or as otherwise disclosed in writing to the Administrative Agent after the date hereof and approved by the Administrative Agent and the Determining Lenders, the Company and its material Subsidiaries are in compliance in all material respects with all Environmental Protection Statutes to the extent material to their respective operations or financial condition. Except as set forth in the Public Filings or as otherwise disclosed in writing to the Administrative Agent after the date hereof and approved by the Administrative Agent and the Determining Lenders, the aggregate contingent and non-contingent liabilities of the Company and its Subsidiaries (other than those reserved for in accordance with GAAP and set forth in the financial statements regarding the Company referred to in Section 7.5 and delivered to the Administrative Agent) which are reasonably expected to arise in connection with (a) the requirements of Environmental Protection Statutes or (b) any obligation or liability to any Person in connection with any Environmental matters (including, without limitation, any release or threatened release (as such terms are defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980) of any Hazardous Waste, Hazardous Substance, other waste, petroleum or petroleum products into the Environment) does not exceed 10% of the Consolidated Tangible Net Worth of the Company (excluding liabilities to the extent covered by insurance if the insurer has confirmed that such insurance covers such liabilities or which the Company reasonably expects to recover from ratepayers of its Subsidiaries).

7.12 Use of Proceeds.

(a) No proceeds of any Borrowings will be used for any purposes or in any manner not permitted by Section 8.15.

(b) The Company is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U issued by the Board of Governors of the Federal Reserve System), and no proceeds of any Borrowing will be used to purchase or carry any such margin stock (other than purchases of common stock expressly permitted by Section 8.15) or to extend credit to others for the purpose of purchasing or carrying any such margin stock. Following the application of the proceeds of each Borrowing, not more than twenty-five percent (25%) of the value of the assets of the Company will be represented by

such margin stock and not more than twenty-five percent (25%) of the value of the assets of the Company and its Subsidiaries will be represented by such margin stock.

SECTION 8 COVENANTS

The Company covenants and agrees to perform, observe, and comply with each of the following covenants, from the Closing Date and so long thereafter as Lenders are committed to fund Borrowings under this Agreement and thereafter until the payment in full of the Principal Debt and payment in full of all other interest, fees, and other amounts of the Obligation then due and owing, unless Borrower receives a prior written consent to the contrary by Administrative Agent as authorized by Determining Lenders:

8.1 Compliance with Laws, Etc. The Company shall comply, and cause each of its Subsidiaries to comply, in all material respects with all applicable laws, rules, regulations and orders (except where failure to comply could not reasonably be expected to have a material adverse effect on the business, assets, condition or operations of the Company and its Subsidiaries taken as a whole), such compliance to include, without limitation, the payment and discharge before the same become delinquent of all taxes, assessments and governmental charges or levies imposed upon it or any of its Subsidiaries or upon any of its property or any property of any of its Subsidiaries, and all lawful claims which, if unpaid, might become a Lien upon any property of it or any of its Subsidiaries, provided that neither the Company nor any of its Subsidiaries shall be required to pay any such tax, assessment, charge, levy or claim which is being contested in good faith and by proper proceedings and with respect to which reserves in conformity with GAAP, if required by such principles, have been provided on the books of the Company or any of its Subsidiaries, as the case may be.

8.2 Financial Statements, Reports and Documents. The Company shall deliver to the Administrative Agent copies of the following:

(a) as soon as possible and in any event within five (5) days after the occurrence of each Default or Potential Default, continuing on the date of such statement, a statement of an authorized financial officer of the Company setting forth the details of such Default or Potential Default and the actions, if any, which the Company has taken and proposes to take with respect thereto;

(b) as soon as available and in any event not later than sixty (60) days after the end of each of the first three quarters of each fiscal year of the Company, the Consolidated balance sheets of the Company and its Subsidiaries as of the end of such quarter and the Consolidated statements of income and cash flows of the Company and its Subsidiaries for the period commencing at the end of the previous year and ending with the end of such quarter, all in reasonable detail and duly certified (subject to year-end audit adjustments) by an authorized financial officer of the Company as having been prepared in accordance with GAAP, together with a certificate of said officer (i) stating that he has no knowledge that a Default or Potential Default has occurred and is continuing or, if a Default or Potential Default has occurred and is continuing, a statement as to the nature thereof and the action, if any, which the Company proposes to take with respect thereto, and (ii) showing in detail the calculation supporting such statement in respect of Section 8.6;

(c) as soon as available and in any event not later than one hundred five (105) days after the end of each fiscal year of the Company, a copy of the annual audit report for such year for the Company and its Subsidiaries, including therein Consolidated balance sheets of the Company and its Subsidiaries as of the end of such fiscal year and Consolidated statements of income and cash flows of the Company and its Subsidiaries for such fiscal year, in each case prepared in

accordance with GAAP and certified by Ernst & Young, LLP or other independent certified public accountants of recognized standing acceptable to the Administrative Agent, together with a certificate of such accounting firm to the Administrative Agent (i) stating that, in the course of the regular audit of the business of the Company and its Subsidiaries, which audit was conducted by such accounting firm in accordance with generally accepted auditing standards, such accounting firm has obtained no knowledge that a Default or Potential Default has occurred and is continuing, or if, in the opinion of such accounting firm, a Default or Potential Default has occurred and is continuing, a statement as to the nature thereof, and (ii) showing in detail the calculations supporting such statement in respect of Section 8.6;

(d) such other information respecting the business or properties, or the condition or operations, financial or otherwise, of the Company or any of its material Subsidiaries as any Lender, through the Administrative Agent, may from time to time reasonably request;

(e) promptly after the sending or filing thereof, copies of all proxy material, reports and other information which the Company sends to any of its security holders, and copies of all final reports and final registration statements which the Company or any material Subsidiary files with the Securities and Exchange Commission or any national securities exchange;

(f) as soon as possible and in any event (i) within thirty (30) Business Days after the Company or any ERISA Affiliate knows or has reason to know that any Termination Event described in clause (a) of the definition of Termination Event with respect to any Plan has occurred and (ii) within thirty (30) Business Days after the Company or any ERISA Affiliate knows or has reason to know that any other Termination Event with respect to any Plan has occurred or is reasonably expected to occur, a statement of the chief financial officer or chief accounting officer of the Company describing such Termination Event and the action, if any, which the Company or such ERISA Affiliate proposes to take with respect thereto;

(g) promptly and in any event within twenty-five (25) Business Days after receipt thereof by the Company or any ERISA Affiliate, copies of each notice received by the Company or such ERISA Affiliate from the PBGC stating its intention to terminate any Plan or to have a trustee appointed to administer any Plan;

(h) within thirty (30) days following request therefor by the Administrative Agent, copies of each Schedule B (Actuarial Information) to each annual report (Form 5500 Series) of the Company or any ERISA Affiliate with respect to each Plan;

(i) promptly and in any event within twenty-five (25) Business Days after receipt thereof by the Company or any ERISA Affiliate from the sponsor of a Multiemployer Plan, a copy of each notice received by the Company or any ERISA Affiliate concerning (i) the imposition of a Withdrawal Liability by a Multiemployer Plan, (ii) the determination that a Multiemployer Plan is, or is expected to be, in reorganization within the meaning of Title IV of ERISA, (iii) the termination of a Multiemployer Plan within the meaning of Title IV of ERISA, or (iv) the amount of liability incurred, or expected to be incurred, by the Company or such ERISA Affiliate in connection with any event described in clause (i), (ii) or (iii) above;

(j) not more than sixty (60) days (or 105 days in the case of the last fiscal quarter of a fiscal year of the Company) after the end of each fiscal quarter of the Company, a certificate of an authorized financial officer of the Company stating the respective ratings, if any, by each of S&P and Moody's of the senior unsecured long-term debt of the Company as of the last day of such quarter; and

(k) promptly after any change in, or withdrawal or termination of, the rating of any senior unsecured long-term debt of the Company by S&P or Moody's, notice thereof.

8.3 Maintenance of Insurance. The Company shall maintain, and cause each of its material Subsidiaries to maintain, insurance with responsible and reputable insurance companies or associations in such amounts and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which the Company or its Subsidiaries operate, provided that the Company or any of its Subsidiaries may self-insure to the extent and in the manner normal for companies of like size, type and financial condition.

8.4 Preservation of Corporate Existence, Etc. The Company shall preserve and maintain, and cause each of its Subsidiaries to preserve and maintain, its corporate existence, rights, franchises and privileges in the jurisdiction of its incorporation, and qualify and remain qualified, and cause each Subsidiary to qualify and remain qualified, as a foreign corporation in each jurisdiction in which qualification is necessary or desirable in view of its business and operations or the ownership of its properties, except (a) in the case of any Subsidiary of the Company, where the failure of such Subsidiary to so preserve, maintain, qualify and remain qualified could not reasonably be expected to have a material adverse effect on the business, assets, condition or operations of the Company and its Subsidiaries taken as a whole and (b) in the case of the Company, where the failure of the Company to preserve and maintain such rights, franchises and privileges and to so qualify and remain qualified could not reasonably be expected to have a material adverse effect on the business, assets, condition or operations of the Company and its Subsidiaries taken as a whole.

8.5 Liens, Etc. The Company shall not create, assume, incur or suffer to exist, or permit any of its Subsidiaries to create, assume, incur or suffer to exist, any Lien on or in respect of any of its property, whether now owned or hereafter acquired, or assign or otherwise convey, or permit any such Subsidiary to assign or otherwise convey, any right to receive income, in each case to secure or provide for the payment of any Debt of any Person, other than Permitted Liens.

8.6 Debt. The Company shall not permit the ratio of (a) the aggregate amount of Net Debt of the Company to (b) the sum of the Consolidated Net Worth of the Company plus Net Debt of the Company to exceed (1) 0.7 to 1.0 at any time during the period beginning on the date hereof through December 31, 2000, (2) 0.675 to 1.0 at any time during the period beginning on January 1, 2001 through December 31, 2001, or (3) 0.65 to 1.0 at any time thereafter.

8.7 Merger and Sale of Assets. The Company shall not merge or consolidate with or into any other Person, or sell, lease or otherwise transfer all or substantially all of its assets, or permit any of its material Subsidiaries to merge or consolidate with or into any other Person, or sell, lease or otherwise transfer all or substantially all of its assets, except that this Section 8.7 shall not prohibit:

(a) the Company and its Subsidiaries from selling, leasing or otherwise transferring their respective assets in the ordinary course of business;

(b) if, but only if, (x) there shall not exist a Default or Potential Default and (y) in the case of each transaction referred to in this paragraph (b) involving the Company or any of its Subsidiaries, such transaction could not reasonably be expected to impair materially the ability of the Company to perform its obligations hereunder and the Company shall continue to exist, any merger, consolidation or sale, lease or other transfer of assets that does not involve any Person other than the Company and its Subsidiaries;

(c) if, but only if, there shall not exist or result a Default or Potential Default, the Company and its Subsidiaries from selling, leasing or otherwise transferring their respective gathering assets and other production area facilities, or the stock of any Person substantially all of the assets of which are gathering assets and other production area facilities, to the Company or to a Subsidiary for consideration that is not materially less than the net book value of such assets and facilities; or

(d) sales of receivables of any kind.

8.8 Agreements to Restrict Dividends and Certain Transfers. The Company shall not enter into or suffer to exist, or permit any of its Subsidiaries to enter into or suffer to exist, any consensual encumbrance or restriction on the ability of any Subsidiary of the Company (a) to pay, directly or indirectly, dividends or make any other distributions in respect of its capital stock or pay any Debt or other obligation owed to the Company or to any Subsidiary of the Company; or (b) to make loans or advances to the Company or any Subsidiary of the Company, except (i) encumbrances and restrictions on any immaterial Non-Borrowing Subsidiary (as defined in the Primary Credit Agreement) of the Company (other than WPC and WFS), (ii) those encumbrances and restrictions existing on the date hereof and described in Schedule I, and (iii) other encumbrances and restrictions now or hereafter existing of the Company or any of its Subsidiaries that are not more restrictive in any material respect than the encumbrances and restrictions with respect to the Company or its Subsidiaries described in Schedule I.

8.9 Loans and Advances. The Company shall not make or permit to remain outstanding any loan or advance to, or own, purchase or acquire any obligations or debt securities of, any Subsidiary of the Company, except that the Company may make and permit to remain outstanding loans and advances to its Subsidiaries (and such Subsidiaries may borrow or otherwise receive such loans and advances) if each such loan or advance (excluding loans and advances to a Subsidiary of the Company if the aggregate principal amount of all such excluded loans and advances to such Subsidiary does not exceed $100,000) is evidenced by a written instrument duly executed by the Subsidiary of the Company to which such loan or advance is made, and bears interest at the Company's or such Subsidiary's market rate of interest.

8.10 Maintenance of Ownership of Certain Subsidiaries. The Company shall not sell, issue or otherwise dispose of, or create, assume, incur or suffer to exist any Lien on or in respect of, or permit any of its Subsidiaries to sell, issue or otherwise dispose of or create, assume, incur or suffer to exist any Lien on or in respect of, any shares of or any interest in any shares of the capital stock of (a) the Principal Subsidiaries or any of their respective material Subsidiaries or (b) any Subsidiary of the Company at the time it owns any shares of or any interest in any shares of the capital stock of the Principal Subsidiaries or any of their respective material Subsidiaries; provided, however, that if, but only if, (i) there shall not exist or result a Default or Potential Default and (ii) in the case of each sale or other disposition referred to in this proviso involving the Company or any of its Subsidiaries, such sale or other disposition could not reasonably be expected to impair materially the ability of the Company to perform its obligations hereunder and the Company shall continue to exist, this Section 8.10 shall not prohibit the sale or other disposition of the stock of any Subsidiary of the Company to the Company or any Wholly-Owned Subsidiary of the Company.

8.11 Compliance with ERISA. The Company shall not (a) terminate, or permit any ERISA Affiliate to terminate, any Plan so as to result in any liability of the Company or any such ERISA Affiliate to the PBGC in excess of $5,000,000, or (b) permit to exist any occurrence of any Termination Event with respect to a Plan for which there is an Insufficiency in excess of $5,000,000.

8.12 Transactions with Related Parties. The Company shall not make any sale to, make any purchase from, extend credit to, make payment for services rendered by, or enter into any other

transaction with, or permit any Subsidiary of the Company to make any sale to, make any purchase from, extend credit to, make payment for services rendered by, or enter into any other transaction with, any Related Party of the Company or of such Subsidiary unless as a whole such sales, purchases, extensions of credit, rendition of services and other transactions are (at the time such sale, purchase, extension of credit, rendition of services or other transaction is entered into) on terms and conditions reasonably fair in all material respects to the Company or such Subsidiary in the good faith judgment of the Company.

8.13 Guarantees. The Company shall not guarantee or otherwise become contingently liable for, or permit any of its Subsidiaries to guarantee or otherwise become contingently liable for, Debt of any Subsidiary of the Company (other than Williams Energy Services and its Subsidiaries) while a Default is continuing.

8.14 Sale and Lease-Back Transactions. The Company shall not enter into, or permit any of its Subsidiaries to enter into, any Sale and Lease-Back Transaction, if after giving effect thereto the Company would not be permitted to incur at least $1.00 of additional Debt secured by a Lien permitted by paragraph z of Schedule I.

8.15 Use of Proceeds of Borrowings. The Company shall not use any proceeds of any Borrowings for any purpose other than general corporate purposes (including, without limitation, repurchases by the Company of its capital stock, working capital and capital expenditures) or use any such proceeds in any manner which violates or results in a violation of Law; provided, however that no proceeds of any Borrowings will be used to acquire any equity security of a class which is registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, (other than any purchase of common stock of any corporation, if such purchase is not subject to Sections 13 and 14 of the Securities Exchange Act of 1934 and is not opposed, resisted or recommended against by such corporation or its management or directors, provided that the aggregate amount of common stock of any corporation (other than Apco Argentina Inc., a Cayman Islands corporation) purchased during any calendar year shall not exceed 1% of the common stock of such corporation issued and outstanding at the time of such purchase) or in any manner which contravenes law, and no proceeds of any Borrowings will be used to purchase or carry any margin stock (within the meaning of or Regulation U issued by the Board of Governors of the Federal Reserve System), except purchases by the Company of its capital stock if, after giving effect thereto, none of the Borrowings would constitute purpose credit within the meaning of such Regulation U.

SECTION 9 DEFAULT. The term "Default" means the occurrence and continuance of any one or more of the following events:

9.1 Payment of Obligation. The Company shall fail to pay all or any part of the principal of the Obligation when the same becomes due (whether by its terms, by acceleration, or as otherwise provided in the Loan Papers) or shall fail to pay any other part of the Obligation (including, without limitation, interest and fees) within ten (10) days of when the same becomes due (whether by its terms, by acceleration, or as otherwise provided in the Loan Papers).

9.2 Misrepresentation. Any representation or warranty made by the Company (or any of its officers) in writing under or in connection with this Agreement or in any certificate furnished under or in connection herewith shall prove to have been incorrect in any material respect when made.

9.3 Covenants. The Company shall fail to perform or observe (i) any term, covenant or agreement contained in Section 8.2 on its part to be performed or observed and such failure shall continue for five (5) Business Days after the earlier of the date notice thereof shall have been given to the Company by the Administrative Agent or any Lender or the date the Company shall have knowledge of

such failure, or (ii) any term, covenant or agreement contained in this Agreement (other than a term, covenant or agreement contained in Section 8.2) or any Note on its part to be performed or observed.

9.4 Default Under Other Debt. The Company or any of its Subsidiaries shall fail to pay any principal of or premium or interest on any Debt which is outstanding in a principal amount of at least $60,000,000 in the aggregate of the Company or such Subsidiary (as the case may be), when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Debt; or any other event shall occur or condition shall exist under any agreement or instrument relating to any such Debt and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event or condition is to accelerate, or to permit the acceleration of, the maturity of such Debt; or any such Debt shall be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment or as a result of the giving of notice of a voluntary prepayment), prior to the stated maturity thereof; provided, however, that the provisions of this Section 9.4 shall not apply to any Non-Recourse Debt of any Non-Borrowing Subsidiary (as defined in the Primary Credit Agreement) of the Company.

9.5 Debtor Relief. The Company or any of its material Subsidiaries shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against the Company or any of its material Subsidiaries seeking to adjudicate it as bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, or other similar official for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), shall remain undismissed or unstayed for a period of thirty (30) days; or the Company or any of its material Subsidiaries shall take any corporate action to authorize any of the actions set forth above in this Section 9.5.

9.6 Judgments. Any judgment or order for the payment of money in excess of $60,000,000 shall be rendered against the Company or any of its material Subsidiaries and remain unsatisfied and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (ii) there shall be any period of thirty (30) consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect.

9.7 Employee Benefit Plans.

(a) Any Termination Event with respect to a Plan shall have occurred and, thirty (30) days after notice thereof shall have been given to the Company by the Administrative Agent, (i) such Termination Event shall still exist and (ii) the sum (determined as of the date of occurrence of such Termination Event) of the Insufficiency of such Plan and the Insufficiency of any and all other Plans with respect to which a Termination Event shall have occurred and then exist (or in the case of a Plan with respect to which a Termination Event described in clause (b) of the definition of Termination Event shall have occurred and then exist, the liability related thereto) is equal to or greater than $5,000,000; or

(b) The Company or any ERISA Affiliate shall have been notified by the sponsor of a Multiemployer Plan that it has incurred Withdrawal Liability to such Multiemployer Plan in an amount which, when aggregated with all other amounts required to be paid to Multiemployer Plans in connection with Withdrawal Liabilities (determined as of the date of such notification), exceeds $15,000,000 or requires payments exceeding $10,000,000 per annum; or

(c) The Company or any ERISA Affiliate shall have been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization or is being terminated, within the meaning of Title IV of ERISA, if as a result of such reorganization or termination the aggregate annual contributions of the Company and its ERISA Affiliates to all Multiemployer Plans which are then in reorganization or being terminated have been or will be increased over the amounts contributed to such Multiemployer Plans for the respective plan years which include the date hereof by an amount exceeding $5,000,000.

SECTION 10 RIGHTS AND REMEDIES

10.1 Remedies Upon Default.

(a) If a Default exists under Section 9.5, the commitment to extend credit hereunder shall automatically terminate and the entire unpaid balance of the Obligation under the Term Facility shall automatically become due and payable without any action or notice of any kind whatsoever.

(b) If any Default exists, Administrative Agent may (and, subject to the terms of Section 11, shall upon the request of Determining Lenders) or Determining Lenders may, do any one or more of the following: (i) if the maturity of the Obligation under the Term Facility has not already been accelerated under Section 10.1(a), declare the entire unpaid balance of the Obligation, or any part thereof, immediately due and payable, whereupon it shall be due and payable; (ii) terminate the commitments of Lenders to extend credit hereunder; (iii) reduce any claim to judgment; (iv) to the extent permitted by Law, exercise (or request each Lender to, and each Lender shall be entitled to, exercise) the Rights of offset or banker's Lien against the interest of the Company in and to every account and other property of the Company which are in the possession of Administrative Agent or any Lender to the extent of the full amount of the Obligation (to the extent permitted by Law, the Company being deemed directly obligated to each Lender in the full amount of the Obligation for such purposes); and (v) exercise any and all other legal or equitable Rights afforded by the Loan Papers, the Laws of the State of New York, or any other applicable jurisdiction as Administrative Agent shall deem appropriate, or otherwise, including, but not limited to, the Right to bring suit or other proceedings before any Governmental Authority either for specific performance of any covenant or condition contained in any of the Loan Papers or in aid of the exercise of any Right granted to Administrative Agent or any Lender in any of the Loan Papers.

10.2 The Company Waivers. To the extent permitted by Law, the Company hereby waives presentment and demand for payment, protest, notice of intention to accelerate, notice of acceleration, and notice of protest and nonpayment, and agrees that its liability with respect to the Obligation (or any part thereof), shall not be affected by any renewal or extension in the time of payment of the Obligation (or any part thereof), by any indulgence, or by any release or change in any security for the payment of the Obligation (or any part thereof).

10.3 Performance by Administrative Agent. If any covenant, duty, or agreement of the Company is not performed in accordance with the terms of the Loan Papers, after the occurrence and during the continuance of a Default, Administrative Agent may, at its option (but subject to the approval of Determining Lenders), perform or attempt to perform such covenant, duty, or agreement on behalf of the Company. In such event, any amount expended by Administrative Agent in such performance or attempted performance shall be payable by the Company, to Administrative Agent on demand, shall become part of the Obligation, and shall bear interest at the Default Rate from the date of such expenditure by Administrative Agent until paid. Notwithstanding the foregoing, it is expressly

understood that Administrative Agent does not assume and shall never have, except by its express written consent, any liability or responsibility for the performance of any covenant, duty, or agreement of the Company.

10.4 Delegation of Duties and Rights. Lenders may perform any of their duties or exercise any of their Rights under the Loan Papers by or through their respective Representatives (provided, that such delegation does not release any Lender of any of its obligations hereunder).

10.5 Not in Control. Nothing in any Loan Paper shall, or shall be deemed to (a) give any Agent or any Lender the Right to exercise control over the assets (including real property), affairs, or management of the Company, (b) preclude or interfere with compliance by the Company with any Law, or (c) require any act or omission by the Company that may be harmful to Persons or property. Any "material adverse event" or other materiality qualifier in any representation, warranty, covenant, or other provision of any Loan Paper is included for credit documentation purposes only and shall not, and shall not be deemed to, mean that any Agent or any Lender acquiesces in any non-compliance by the Company with any Law or document, or that any Agent or any Lender does not expect the Company to promptly, diligently, and continuously carry out all appropriate removal, remediation, and termination activities required or appropriate in accordance with all Environmental Protection Statutes. No Agent or Lender has any fiduciary relationship with or fiduciary duty to the Company arising out of or in connection with the Loan Papers, and the relationship between Agents and Lenders, on the one hand, and the Company, on the other hand, in connection with the Loan Papers is solely that of debtor and creditor. The power of Agents and Lenders under the Loan Papers is limited to the Rights provided in the Loan Papers, which Rights exist solely to assure payment and performance of the Obligation and may be exercised in a manner calculated by Agents and Lenders in their respective good faith business judgment.

10.6 Course of Dealing. The acceptance by Administrative Agent or Lenders at any time and from time to time of partial payment on the Obligation shall not be deemed to be a waiver of any Default then existing. No waiver by Administrative Agent, Determining Lenders, or Lenders of any Default shall be deemed to be a waiver of any other then-existing or subsequent Default. No delay or omission by Administrative Agent, Determining Lenders, or Lenders in exercising any Right under the Loan Papers shall impair such Right or be construed as a waiver thereof or any acquiescence therein, nor shall any single or partial exercise of any such Right preclude other or further exercise thereof, or the exercise of any other Right under the Loan Papers or otherwise.

10.7 Cumulative Rights. All Rights available to Administrative Agent and Lenders under the Loan Papers are cumulative of and in addition to all other Rights granted to Administrative Agent and Lenders at law or in equity, whether or not the Obligation is due and payable and whether or not Administrative Agent or Lenders have instituted any suit for collection, foreclosure, or other action in connection with the Loan Papers.

10.8 Application of Proceeds. Any and all proceeds ever received by Administrative Agent or Lenders from the exercise of any Rights pertaining to the Obligation shall be applied to the Obligation in the order and manner set forth in Section 3.11.

10.9 Limitation of Rights. Notwithstanding any other provision of this Agreement or any other Loan Paper, any action taken or proposed to be taken by Administrative Agent or any Lender under any Loan Paper which would affect the operational, voting, or other control of the Company, shall be pursuant to any applicable state Law, and the applicable rules and regulations thereunder.

10.10 Expenditures by Lenders. The Company shall promptly pay within thirty (30) days after request therefor (a) all reasonable costs, fees, and expenses paid or incurred by any Agent incident to any

Loan Paper (including, but not limited to, the reasonable fees and expenses of counsel to Administrative Agent and the allocated cost of internal counsel in connection with the negotiation, preparation, delivery, execution, coordination, and administration of the Loan Papers and any related amendment, waiver, or consent) and (b) following the occurrence and continuation of a Default, all reasonable costs and expenses of Lenders and Administrative Agent incurred by Administrative Agent or any Lender in connection with the enforcement of the obligations of the Company arising under the Loan Papers (including, without limitation, costs and expenses incurred in connection with any workout or bankruptcy) or the exercise of any Rights arising under the Loan Papers (including, but not limited to, reasonable attorneys' fees including allocated cost of internal counsel, court costs and other costs of collection), all of which shall be a part of the Obligation and shall bear interest at the Default Rate from the date due until the date repaid by the Company.

10.11 INDEMNIFICATION. THE COMPANY AGREES TO INDEMNIFY AND HOLD HARMLESS EACH AGENT, ARRANGER, AND EACH LENDER AND EACH OF THEIR RESPECTIVE AFFILIATES AND THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, ATTORNEYS, AND ADVISORS (EACH, AN "INDEMNIFIED PARTY") FROM AND AGAINST ANY AND ALL CLAIMS, DAMAGES, ACTUAL LOSSES, LIABILITIES, COSTS, AND EXPENSES (INCLUDING, WITHOUT LIMITATION, REASONABLE ATTORNEYS' FEES) (BUT SPECIFICALLY EXCLUDING TAXES), THAT MAY BE INCURRED BY OR ASSERTED OR AWARDED AGAINST ANY INDEMNIFIED PARTY, IN EACH CASE ARISING OUT OF OR IN CONNECTION WITH OR BY REASON OF (INCLUDING, WITHOUT LIMITATION, IN CONNECTION WITH ANY INVESTIGATION, LITIGATION, OR PROCEEDING OR PREPARATION OF DEFENSE IN CONNECTION THEREWITH) THE LOAN PAPERS, ANY OF THE TRANSACTIONS CONTEMPLATED HEREIN OR THE ACTUAL OR PROPOSED USE OF THE PROCEEDS OF THE BORROWINGS (INCLUDING ANY OF THE FOREGOING ARISING FROM THE NEGLIGENCE OF THE INDEMNIFIED PARTY), EXCEPT TO THE EXTENT SUCH CLAIM, DAMAGE, LOSS, LIABILITY, COST, OR EXPENSE IS FOUND IN A FINAL, NON-APPEALABLE JUDGMENT BY A COURT OF COMPETENT JURISDICTION TO HAVE RESULTED FROM SUCH INDEMNIFIED PARTY'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT, OR VIOLATION OF ANY LAW OR REGULATION BY SUCH INDEMNIFIED PARTY; PROVIDED, THAT THE COMPANY SHALL HAVE NO OBLIGATION HEREUNDER TO ANY AGENT OR ANY LENDER WITH RESPECT TO INDEMNIFIED LIABILITIES ARISING FROM (i) THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF ANY AGENT OR ANY SUCH LENDER, (ii) LEGAL PROCEEDINGS COMMENCED AGAINST ANY AGENT OR ANY SUCH LENDER BY ANY SECURITY HOLDER OR CREDITOR THEREOF ARISING OUT OF AND BASED UPON RIGHTS AFFORDED ANY SUCH SECURITY HOLDER OR CREDITOR SOLELY IN ITS CAPACITY AS SUCH, OR (iii) LEGAL PROCEEDINGS COMMENCED AGAINST ANY AGENT OR ANY SUCH LENDER BY ANY OTHER LENDER OR BY ANY PARTICIPANT (AS DEFINED IN SECTION 12.13). IN THE CASE OF AN INVESTIGATION, LITIGATION, OR OTHER PROCEEDING TO WHICH THE INDEMNITY IN THIS SECTION 10.11 APPLIES, EXCEPT AS PROVIDED ABOVE, SUCH INDEMNITY SHALL BE EFFECTIVE WHETHER OR NOT SUCH INVESTIGATION, LITIGATION, OR PROCEEDING IS BROUGHT BY THE COMPANY, ITS DIRECTORS, SHAREHOLDERS OR CREDITORS OR AN INDEMNIFIED PARTY OR ANY OTHER PERSON OR ANY INDEMNIFIED PARTY IS OTHERWISE A PARTY THERETO AND WHETHER OR NOT THE TRANSACTIONS CONTEMPLATED HEREBY ARE CONSUMMATED. THE PARTIES HERETO AGREE NOT TO ASSERT ANY CLAIM AGAINST ANY PARTY ON ANY THEORY OF LIABILITY, FOR SPECIAL, INDIRECT, CONSEQUENTIAL, OR PUNITIVE DAMAGES ARISING OUT OF OR OTHERWISE RELATING TO THE LOAN PAPERS, ANY OF THE TRANSACTIONS CONTEMPLATED HEREIN OR THE ACTUAL OR PROPOSED USE OF THE PROCEEDS OF THE BORROWINGS. WITHOUT PREJUDICE TO THE SURVIVAL OF ANY OTHER AGREEMENT OF THE COMPANY HEREUNDER, THE AGREEMENTS AND OBLIGATIONS OF THE COMPANY CONTAINED IN THIS SECTION 10.11 SHALL SURVIVE THE PAYMENT IN FULL OF THE BORROWINGS AND ALL OTHER AMOUNTS PAYABLE UNDER THIS AGREEMENT.

SECTION 11 AGREEMENT AMONG LENDERS

11.1 Administrative Agent.

(a) Each Lender hereby appoints Credit Lyonnais New York Branch (and Credit Lyonnais New York Branch hereby accepts such appointment) as its nominee and agent, in its name and on its behalf: (i) to act as nominee for and on behalf of such Lender in and under all Loan Papers; (ii) to arrange the means whereby the funds of Lenders are to be made available to the Company under the Loan Papers; (iii) to take such action as may be requested by any Lender under the Loan Papers (when such Lender is entitled to make such request under the Loan Papers and after such requesting Lender has obtained the concurrence of such other Lenders as may be required under the Loan Papers); (iv) to receive all documents and items to be furnished to Lenders under the Loan Papers; (v) to be the secured party, mortgagee, beneficiary, and similar party in respect of, and to receive, as the case may be, any collateral for the benefit of Lenders; (vi) to timely distribute, and Administrative Agent agrees to so distribute, to each Lender all material information, requests, documents, and items received from the Company under the Loan Papers (including written disclosures pursuant to Section 8.2 (other than pursuant to Section 8.2 (d), which shall only be distributed to the requesting Lender), Section 7.6 and Section 7.11); (vii) to promptly distribute to each Lender its ratable part of each payment or prepayment (whether voluntary, as proceeds of collateral upon or after foreclosure, as proceeds of insurance thereon, or otherwise) in accordance with the terms of the Loan Papers; (viii) to deliver to the appropriate Persons requests, demands, approvals, and consents received from Lenders; and (ix) to execute, on behalf of Lenders, such releases or other documents or instruments as are permitted by the Loan Papers or as directed by Lenders or Determining Lenders (when entitled to so authorize) from time to time; provided, however, Administrative Agent shall not be required to take any action which exposes Administrative Agent to personal liability or which is contrary to the Loan Papers or applicable Law.

(b) Administrative Agent may resign at any time as Administrative Agent under the Loan Papers by giving written notice thereof to Lenders. Should the initial or any successor Administrative Agent ever cease to be a party hereto or should the initial or any successor Administrative Agent ever resign as Administrative Agent, then Determining Lenders shall elect the successor Administrative Agent from among the Lenders (other than the resigning Administrative Agent). If no successor Administrative Agent shall have been so appointed by Determining Lenders, within 30 days after the retiring Administrative Agent's giving of notice of resignation, then the retiring Administrative Agent may, on behalf of Lenders, appoint a successor Administrative Agent, which shall be a commercial bank having a combined capital and surplus of at least $1,000,000,000. Upon the acceptance of any appointment as Administrative Agent under the Loan Papers by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the Rights of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations of Administrative Agent under the Loan Papers and each Lender shall execute such documents as any Lender may reasonably request to reflect such change in and under the Loan Papers. After any retiring Administrative Agent's resignation as Administrative Agent under the Loan Papers, the provisions of this Section 11 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under the Loan Papers.

(c) Administrative Agent, in its capacity as a Lender, shall have the same Rights under the Loan Papers as any other Lender and may exercise the same as though it were not acting as Administrative Agent; the term "Lender" shall, unless the context otherwise indicates, include

Administrative Agent; and any resignation of Administrative Agent hereunder shall not impair or otherwise affect any Rights which it has or may have in its capacity as an individual Lender. Each Lender and the Company agree that Administrative Agent is not a fiduciary for Lenders or for the Company but simply is acting in the capacity described herein to alleviate administrative burdens for both the Company and Lenders, that Administrative Agent has no duties or responsibilities to Lenders or the Company except those expressly set forth herein, and that Administrative Agent in its capacity as a Lender has all Rights of any other Lender.

(d) Administrative Agent and its Affiliates may now or hereafter be engaged in one or more loan, letter of credit, leasing, or other financing transactions with the Company, act as trustee or depositary for the Company, or otherwise be engaged in other transactions with the Company (collectively, the "other activities") not the subject of the Loan Papers. Without limiting the Rights of Lenders specifically set forth in the Loan Papers, Administrative Agent and its Affiliates shall not be responsible to account to Lenders for such other activities, and no Lender shall have any interest in any other activities, any present or future guaranties by or for the account of the Company which are not contemplated or included in the Loan Papers, any present or future offset exercised by Administrative Agent and its Affiliates in respect of such other activities, any present or future property taken as security for any such other activities, or any property now or hereafter in the possession or control of Administrative Agent or its Affiliates which may be or become security for the obligations of the Company arising under the Loan Papers by reason of the general description of indebtedness secured or of property contained in any other agreements, documents or instruments related to any such other activities; provided that, if any payments in respect of such guaranties or such property or the proceeds thereof shall be applied to reduction of the obligations of the Company arising under the Loan Papers, then each Lender shall be entitled to share in such application ratably. Each Lender acknowledges that, and consents to, Credit Lyonnais New York Branch's also serving as Administrative Agent under that certain Letter of Credit and Reimbursement Agreement of even date herewith among the Company, Credit Lyonnais New York Branch, as "Administrative Agent," and certain financial institutions party thereto.

11.2 Expenses. Upon demand by Administrative Agent, each Lender shall pay its Pro Rata Part of any reasonable expenses (including, without limitation, court costs, reasonable attorneys' fees and other costs of collection) incurred by Administrative Agent in connection with any of the Loan Papers if and to the extent Administrative Agent does not receive reimbursement therefor from other sources within 60 days after incurred; provided that, each Lender shall be entitled to receive its Pro Rata Part of any reimbursement for such expenses, or part thereof, which Administrative Agent subsequently receives from such other sources.

11.3 Proportionate Absorption of Losses. Except as otherwise provided in the Loan Papers, nothing in the Loan Papers shall be deemed to give any Lender any advantage over any other Lender insofar as the Obligation arising under the Loan Papers is concerned, or to relieve any Lender from absorbing its Pro Rata Part of any losses sustained with respect to the Obligation (except to the extent such losses result from unilateral actions or inactions of any Lender that are not made in accordance with the terms and provisions of the Loan Papers).

11.4 Delegation of Duties; Reliance. Administrative Agent may perform any of its duties or exercise any of its Rights under the Loan Papers by or through its Representatives. Administrative Agent and its Representatives shall (a) be entitled to rely upon (and shall be protected in relying upon) any writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telecopy, telegram, telex or teletype message, statement, order, or other documents or conversation believed by it or them to be genuine and correct and to have been signed or made by the proper Person and, with respect to legal

matters, upon opinion of counsel selected by Administrative Agent, (b) be entitled to deem and treat each Lender as the owner and holder of the Principal Debt owed to such Lender for all purposes until, subject to Section 12.13, written notice of the assignment or transfer thereof shall have been given to and received by Administrative Agent (and any request, authorization, consent, or approval of any Lender shall be conclusive and binding on each subsequent holder, assignee, or transferee of the Principal Debt owed to such Lender or portion thereof until such notice is given and received), (c) not be deemed to have notice of the occurrence of a Default unless a responsible officer of Administrative Agent, who handles matters associated with the Loan Papers and transactions thereunder, has actual knowledge thereof or Administrative Agent has been notified thereof by a Lender or the Company, and (d) be entitled to consult with legal counsel (including counsel for the Company), independent accountants and other experts selected by Administrative Agent and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts.

11.5 Limitation of Liability.

(a) None of the Agents or any of their respective Representatives shall be liable for any action taken or omitted to be taken by it or them under the Loan Papers in good faith and reasonably believed by it or them to be within the discretion or power conferred upon it or them by the Loan Papers or be responsible for the consequences of any error of judgment, except for fraud, gross negligence, or willful misconduct; and none of the Agents, or any of their respective Representatives has a fiduciary relationship with any Lender by virtue of the Loan Papers (provided that nothing herein shall negate the obligation of Administrative Agent to account for funds received by it for the account of any Lender).

(b) Unless indemnified to its satisfaction against loss, cost, liability, and expense, no Agent shall be compelled to do any act under the Loan Papers or to take any action toward the execution or enforcement of the powers thereby created or to prosecute or defend any suit in respect of the Loan Papers. If Administrative Agent requests instructions from Lenders or Determining Lenders, as the case may be, with respect to any act or action (including, but not limited to, any failure to act) in connection with any Loan Paper, such Agent shall be entitled (but shall not be required) to refrain (without incurring any liability to any Person by so refraining) from such act or action unless and until it has received such instructions. In no event, however, shall any Agent or any of its respective Representatives be required to take any action which it or they determine could incur for it or them criminal or onerous civil liability. Without limiting the generality of the foregoing, no Lender shall have any right of action against any Agent as a result of such Agent's acting or refraining from acting hereunder in accordance with the instructions of Determining Lenders.

(c) No Agent shall be responsible in any manner to any Lender or any Participant for, and each Lender represents and warrants that it has not relied upon any Agent in respect of, (i) the creditworthiness of the Company and the risks involved to such Lender, (ii) the effectiveness, enforceability, genuineness, validity, or the due execution of any Loan Paper, (iii) any representation, warranty, document, certificate, report, or statement made therein or furnished thereunder or in connection therewith, (iv) the existence, priority, or perfection of any Lien hereafter granted or purported to be granted under any Loan Paper, or (v) observation of or compliance with any of the terms, covenants, or conditions of any Loan Paper on the part of the Company. Each Lender agrees to indemnify Agents and their respective Representatives and hold them harmless from and against (but limited to such Lender's Pro Rata Part of) any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, reasonable expenses, and reasonable disbursements of any kind or nature whatsoever which may be imposed on, asserted against, or incurred by them in any way relating to or arising out of the Loan Papers

or any action taken or omitted by them under the Loan Papers, to the extent such Agents and their respective Representatives are not reimbursed for such amounts by the Company (provided that, no Agent or its Representatives shall have the right to be indemnified hereunder for its or their own fraud, gross negligence, or willful misconduct); and provided, further, that no Designated Lender shall be liable for any payment under this Section 11.5(c) so long as, and to the extent that, its Designating Lender makes such payments in accordance with, and at the time required by, the terms of this Agreement.

11.6 Default; Collateral. Upon the occurrence and continuance of a Default, Lenders agree to promptly confer in order that Determining Lenders or Lenders, as the case may be, may agree upon a course of action for the enforcement of the Rights of Lenders; and Administrative Agent shall be entitled to refrain from taking any action (without incurring any liability to any Person for so refraining) unless and until Administrative Agent shall have received instructions from Determining Lenders. In actions with respect to any property of the Company, Administrative Agent is acting for the ratable benefit of each Lender. Any and all agreements to subordinate (whether made heretofore or hereafter) other indebtedness or obligations of the Company to the Obligation shall be construed as being for the ratable benefit of each Lender. If Administrative Agent acquires any security for the Obligation or any guaranty of the Obligation upon or in lieu of foreclosure, the same shall be held for the Pro Rata benefit of all Lenders.

11.7 Limitation of Liability. To the extent permitted by Law (a) no Agent (acting in their respective agent capacities) shall incur any liability to any other Lender or Participant except for acts or omissions resulting from its own fraud, gross negligence or wilful misconduct, and (b) no Agent, Lender, or Participant shall incur any liability to any other Person for any act or omission of any other Lender, Agent, or Participant.

11.8 Relationship of Lenders. Nothing herein shall be construed as creating a partnership or joint venture among Agents and Lenders.

11.9 Benefits of Agreement. Except for the representations and covenants in Section 11.1(c) in favor of the Company, none of the provisions of this Section 11 shall inure to the benefit of the Company or any other Person other than Lenders; consequently, neither the Company nor any other Person shall be entitled to rely upon, or to raise as a defense, in any manner whatsoever, the failure of any Agent or Lender to comply with such provisions.

11.10 Agents. None of the Lenders identified in this Agreement as "Syndication Agent" or "Documentation Agent" shall have any rights, powers, obligations, liabilities, responsibilities, or duties under this Agreement other than those applicable to all Lenders as such. Without limiting the foregoing, none of the Lenders so identified as a "Syndication Agent" or "Documentation Agent" shall have or be deemed to have any fiduciary relationship with any Lender.

11.11 Obligation Several. The obligations of Lenders hereunder are several, and each Lender hereunder shall not be responsible for the obligations of the other Lenders hereunder, nor will the failure of one Lender to perform any of its obligations hereunder relieve the other Lenders from the performance of their respective obligations hereunder.

SECTION 12 MISCELLANEOUS

12.1 Headings. The headings, captions, and arrangements used in any of the Loan Papers are, unless specified otherwise, for convenience only and shall not be deemed to limit, amplify, or modify the terms of the Loan Papers, nor affect the meaning thereof.

12.2 Nonbusiness Days. In any case where any payment or action is due under any Loan Paper on a day which is not a Business Day, such payment or action may be delayed until the next-succeeding Business Day, but interest and fees shall continue to accrue in respect of any payment to which it is applicable until such payment is in fact made; provided that, if in the case of any such payment in respect of a Eurodollar Rate Borrowing the next-succeeding Business Day is in the next calendar month, then such payment shall be made on the next-preceding Business Day.

12.3 Communications. Unless specifically otherwise provided, whenever any Loan Paper requires or permits any consent, approval, notice, request, or demand from one party to another, such communication must be in writing (which may be by telex or telecopy) to be effective and shall be deemed to have been given (a) if by telex, when transmitted to the telex number, if any, for such party, and the appropriate answer back is received, (b) if by telecopy, when transmitted to the telecopy number for such party (and all such communications sent by telecopy shall be confirmed promptly thereafter by personal delivery or mailing in accordance with the provisions of this section; provided, that any requirement in this parenthetical shall not affect the date on which such telecopy shall be deemed to have been delivered), (c) if by mail, on the third Business Day after it is enclosed in an envelope, properly addressed to such party, properly stamped, sealed, and deposited in the appropriate official postal service, or (d) if by any other means, when actually delivered to such party. Until changed by notice pursuant hereto, the address (and telex and telecopy numbers, if any) for Administrative Agent and each Lender is set forth on Schedule 2.1, and for the Company is the address set forth by the Company's signature on the signature page of this Agreement. A copy of each communication to Administrative Agent shall also be sent to Haynes and Boone, LLP, 901 Main Street, Dallas, Texas 75202, Fax: 214/651-5940, Attn: Timothy Powers.

12.4 Form and Number of Documents. Each agreement, document, instrument, or other writing to be furnished under any provision of this Agreement must be in form and substance and in such number of counterparts as may be reasonably satisfactory to Administrative Agent and its counsel.

12.5 Exceptions to Covenants. The Company shall not take any action or fail to take any action which is permitted as an exception to any of the covenants contained in any Loan Paper if such action or omission would result in the breach of any other covenant contained in any of the Loan Papers.

12.6 Survival. All covenants, agreements, undertakings, representations, and warranties made in any of the Loan Papers shall survive all closings under the Loan Papers and, except as otherwise indicated, shall not be affected by any investigation made by any party. All rights of, and provisions relating to, reimbursement and indemnification of any Agent or any Lender shall survive termination of this Agreement and payment in full of the Obligation.

12.7 GOVERNING LAW. THE LAWS OF THE STATE OF NEW YORK AND OF THE UNITED STATES OF AMERICA SHALL GOVERN THE RIGHTS AND DUTIES OF THE PARTIES TO THE LOAN PAPERS AND THE VALIDITY, CONSTRUCTION, ENFORCEMENT, AND INTERPRETATION OF THE LOAN PAPERS.

12.8 Invalid Provisions. If any provision in any Loan Paper is held to be illegal, invalid, or unenforceable, such provision shall be fully severable; the appropriate Loan Paper shall be construed and enforced as if such provision had never comprised a part thereof; and the remaining provisions thereof shall remain in full force and effect and shall not be affected by such provision or by its severance therefrom. Administrative Agent, Lenders, and the Company agree to negotiate, in good faith, the terms of a replacement provision as similar to the severed provision as may be possible and be legal, valid, and enforceable.

12.9 Entirety. THE RIGHTS AND OBLIGATIONS OF THE COMPANY, LENDERS, AND AGENTS SHALL BE DETERMINED SOLELY FROM WRITTEN AGREEMENTS, DOCUMENTS, AND INSTRUMENTS, AND ANY PRIOR ORAL AGREEMENTS BETWEEN SUCH PARTIES ARE SUPERSEDED BY AND MERGED INTO SUCH WRITINGS. THIS AGREEMENT (AS AMENDED IN WRITING FROM TIME TO TIME) AND THE OTHER WRITTEN LOAN PAPERS EXECUTED BY THE COMPANY, ANY LENDER, OR ANY AGENT (TOGETHER WITH ALL COMMITMENT LETTERS AND FEE LETTERS AS THEY RELATE TO THE PAYMENT OF FEES AFTER THE CLOSING DATE) REPRESENT THE FINAL AGREEMENT BETWEEN THE COMPANY, LENDERS, AND AGENTS AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS BY SUCH PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN SUCH PARTIES.

12.10 Jurisdiction; Venue; Service of Process; Jury Trial. EACH PARTY HERETO, IN EACH CASE FOR ITSELF, ITS SUCCESSORS AND ASSIGNS, HEREBY (A) IRREVOCABLY SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS LOCATED IN THE BOROUGH OF MANHATTAN OR SOUTHERN DISTRICT OF NEW YORK, AND AGREES AND CONSENTS THAT SERVICE OF PROCESS MAY BE MADE UPON IT IN ANY LEGAL PROCEEDING ARISING OUT OF OR IN CONNECTION WITH THE LOAN PAPERS AND THE OBLIGATION BY SERVICE OF PROCESS AS PROVIDED BY NEW YORK LAW, (B) IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY LITIGATION ARISING OUT OF OR IN CONNECTION WITH THE LOAN PAPERS AND THE OBLIGATION BROUGHT IN ANY SUCH COURT, (C) IRREVOCABLY WAIVES ANY CLAIMS THAT ANY LITIGATION BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM, (D) IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS OUT OF ANY OF THE AFOREMENTIONED COURTS IN ANY SUCH LITIGATION BY THE MAILING OF COPIES THEREOF BY CERTIFIED MAIL, RETURN RECEIPT REQUESTED, POSTAGE PREPAID, AT ITS ADDRESS SET FORTH HEREIN, AND (E) IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY LOAN PAPER OR THE TRANSACTIONS CONTEMPLATED THEREBY. The scope of each of the foregoing waivers is intended to be all-encompassing of any and all disputes that may be filed in any court and that relate to the subject matter of this transaction, including, without limitation, contract claims, tort claims, breach of duty claims, and all other common law and statutory claims. The Company and each other party to this Agreement acknowledge that this waiver is a material inducement to the agreement of each party hereto to enter into a business relationship, that each has already relied on this waiver in entering into this Agreement, and each will continue to rely on each of such waivers in related future dealings. The Company and each other party to this Agreement warrant and represent that they have reviewed these waivers with their legal counsel, and that they knowingly and voluntarily agree to each such waiver following consultation with legal counsel. THE WAIVERS IN THIS SECTION 12.10 ARE IRREVOCABLE, MEANING THAT THEY MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THESE WAIVERS SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, SUPPLEMENTS, AND REPLACEMENTS TO OR OF THIS OR ANY OTHER LOAN PAPER. In the event of Litigation, this Agreement may be filed as a written consent to a trial by the court.

12.11 Amendments, Consents, Conflicts, and Waivers.

(a) Except as otherwise specifically provided, (i) this Agreement may only be amended, modified or waived by an instrument in writing executed jointly by the Company and Determining Lenders, and, in the case of any matter affecting Administrative Agent, by Administrative Agent, and may only be supplemented by documents delivered or to be delivered in accordance with the express terms hereof, and (ii) the other Loan Papers may only be the subject of an amendment, modification, or waiver if the Company and Determining Lenders, and, in the case of any matter affecting Administrative Agent, Administrative Agent, have approved same.

(b) Any amendment to or consent or waiver under this Agreement or any Loan Paper which purports to accomplish any of the following must be by an instrument in writing executed by the Company and executed (or approved, as the case may be) by each Lender, and, in the case of any matter affecting Administrative Agent, by Administrative Agent: (i) extends the due date or decreases the amount of any scheduled payment of the Obligation arising under Loan Papers beyond the date specified in the Loan Papers; (ii) reduces the interest rate or decreases the amount of interest, fees, or other sums payable to Administrative Agent or Lenders hereunder (except such reductions as are contemplated by this Agreement); or (iii) reduces the percentage specified in the definition of "Determining Lenders"; (iv) changes this clause (b) or any other matter specifically requiring the consent of all Lenders hereunder; or (v) consents to the assignment or transfer of the Company of any of its rights and obligations under this Agreement. Without the consent of such Lender, no Lender's "Committed Sum" under the Term Facility may be increased. Without the consent of Administrative Agent and Determining Lenders, no provision of Section 11 may be amended, modified, or waived. Each Designating Lender shall act on behalf of its Designated Lender with respect to any rights of its Designated Lender to grant or withhold any consent hereunder to the fullest extent it has been so delegated to act by its Designated Lender pursuant to its Designation Agreement.

(c) Any conflict or ambiguity between the terms and provisions herein and terms and provisions in any other Loan Paper shall be controlled by the terms and provisions herein.

(d) No course of dealing nor any failure or delay by Administrative Agent, any Lender, or any of their respective Representatives with respect to exercising any Right of Administrative Agent or any Lender hereunder shall operate as a waiver thereof. A waiver must be in writing and signed by Administrative Agent and Determining Lenders (or by all Lenders, if required hereunder) to be effective, and such waiver will be effective only in the specific instance and for the specific purpose for which it is given.

12.12 Multiple Counterparts. This Agreement may be executed in a number of identical counterparts, each of which shall be deemed an original for all purposes and all of which constitute, collectively, one agreement; but, in making proof of this Agreement, it shall not be necessary to produce or account for more than one such counterpart. It is not necessary that each Lender execute the same counterpart so long as identical counterparts are executed by the Company, each Lender, and Administrative Agent. This Agreement shall become effective when counterparts hereof shall have been executed and delivered to Administrative Agent by each Lender, Administrative Agent, and the Company, or, when Administrative Agent shall have received telecopied, telexed, or other evidence satisfactory to it that such party has executed and is delivering to Administrative Agent a counterpart hereof.

12.13 Successors and Assigns; Assignments and Participations.

(a) This Agreement shall be binding upon, and inure to the benefit of the parties hereto and their respective successors and assigns, except that (i) the Company may not, directly or indirectly, assign or transfer, or attempt to assign or transfer, any of its Rights, duties or obligations under any Loan Papers without the express written consent of all Lenders, and (ii) except as permitted under this Section, no Lender may transfer, pledge, assign, sell any participation in, or otherwise encumber its portion of the Obligation.

(b) Each Lender may assign to one or more Eligible Assignees all or a portion of its Rights and obligations under this Agreement and the other Loan Papers (including, without limitation, all or a portion of its Borrowings and its Note); provided, however, that:

(i) each such assignment shall be to an Eligible Assignee;

(ii) except in the case of an assignment to another Lender or an assignment of all of a Lender's Rights and obligations under this Agreement and the other Loan Papers, any such partial assignment shall be in an amount at least equal to $10,000,000 (or such lower amount as may be requested by a Lender and agreed to by Administrative Agent, acting in its sole discretion);

(iii) each such assignment by a Lender shall be of a constant, and not varying, percentage of all of its Rights and obligations under this Agreement and the Notes; and

(iv) the parties to such assignment shall execute and deliver to the Administrative Agent for its acceptance an Assignment and Acceptance Agreement in the form of Exhibit C hereto, together with any Notes subject to such assignment and a processing fee of $3,000.

Upon execution, delivery, and acceptance of such Assignment and Acceptance Agreement, the assignee thereunder shall be a party hereto and, to the extent of such assignment, have the obligations, Rights, and benefits of a Lender under the Loan Papers and the assigning Lender shall, to the extent of such assignment, relinquish its rights and be released from its obligations under the Loan Papers. Upon the consummation of any assignment pursuant to this Section, the Company shall issue appropriate Notes to the assignor and the assignee, reflecting such Assignment and Acceptance. If the assignee is not incorporated under the laws of the United States of America or a state thereof, it shall deliver to the Company and Administrative Agent certification as to exemption from deduction or withholding of Taxes in accordance with Section 4.6.

(c) Administrative Agent shall maintain at its address referred to in Section 12.3 a copy of each Assignment and Acceptance Agreement delivered to and accepted by it and a register for the recondition of the names and addresses of the Lenders and their respective Committed Sums, and principal amount of the Borrowings owing to each Lender from time to time (the "Register"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Company, Administrative Agent and Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of the Loan Papers. The Register shall be available for inspection by the Company or any Lender at any reasonable time and from time to time upon reasonable prior notice. Upon the consummation of any assignment in accordance with this Section 12.13, Schedule 2.1 shall automatically be deemed amended (to the extent required) by Administrative Agent to reflect the name, address, and respective Committed Sums of the assignor and assignee.

(d) Upon its receipt of an Assignment and Acceptance Agreement executed by the parties thereto, together with any Notes subject to such assignment and payment of the processing fee, Administrative Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of Exhibit C hereto, (i) accept such Assignment and Acceptance Agreement, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the parties thereto.

(e) Subject to the provisions of this Section and in accordance with applicable Law, any Lender may, in the ordinary course of its commercial lending business and in accordance with applicable Law, at any time sell to one or more Persons (each a "Participant") participating interests in its portion of the Obligation. In the event of any such sale to a Participant, (i) such Lender shall remain a "Lender" under this Agreement and the Participant shall not constitute a "Lender" hereunder, (ii) such Lender's obligations under this Agreement shall remain unchanged, (iii) such Lender shall remain solely responsible for the performance thereof, (iv) such Lender shall remain the holder of its share of the Principal Debt for all purposes under this Agreement, (v) the Company and Administrative Agent shall continue to deal solely and directly with such Lender in connection with such Lender's Rights and obligations under the Loan Papers, and (vi) such Lender shall be solely responsible for any withholding taxes or any filing or reporting requirements relating to such participation and shall hold the Company and Administrative Agent and their respective successors, permitted assigns, officers, directors, employees, agents, and representatives harmless against the same. Participants shall have no Rights under the Loan Papers, other than certain voting Rights as provided below. Subject to the following, each Lender shall be entitled to obtain (on behalf of its Participants) the benefits of Section 4 with respect to all participations in its part of the Obligation outstanding from time to time so long as the Company shall not be obligated to pay any amount in excess of the amount that would be due to such Lender under Section 4 calculated as though no participations have been made. No Lender shall sell any participating interest under which the Participant shall have any Rights to approve any amendment, modification, or waiver of any Loan Paper, except to the extent such amendment, modification, or waiver extends the due date for payment of any amount in respect of principal (other than mandatory prepayments), interest, or fees due under the Loan Papers, reduces the interest rate or the amount of principal or fees applicable to the Obligation (except such reductions as are provided by this Agreement), or releases any guaranty or collateral, if any, for the Obligation (except such releases as are contemplated by this Agreement); provided that, in those cases where a Participant is entitled to the benefits of Section 4 or a Lender grants Rights to its Participants to approve amendments to or waivers of the Loan Papers respecting the matters previously described in this sentence, such Lender must include a voting mechanism in the relevant participation agreement or agreements, as the case may be, whereby a majority of such Lender's portion of the Obligation (whether held by such Lender or Participant) shall control the vote for all of such Lender's portion of the Obligation. Except in the case of the sale of a participating interest to another Lender, the relevant participation agreement shall not permit the Participant to transfer, pledge, assign, sell participations in, or otherwise encumber its portion of the Obligation, unless the consent of the transferring Lender (which consent will not be unreasonably withheld) has been obtained.

(f) Any Lender may at any time designate not more than one Designated Lender to fund Borrowings on behalf of such Designating Lender subject to the terms of this Section 12.13(f), and the provisions of Sections 12.13(b) and 12.13(e) shall not apply to such designation. No Lender may have more than one Designated Lender at any time. Such designation may occur either by the execution of the signature pages hereof by such Lender and Designated Lender next to the appropriate "Designating Lender" and "Designated Lender" captions, or by execution by such parties of a Designation Agreement subsequent to the date hereof; provided, that any Lender and its Designated Lender executing the signatures pages hereof as "Designating Lender" and "Designated Lender", respectively, on the date hereof shall be deemed to have executed a Designation Agreement, and shall be bound by the respective representations, warranties and covenants contained therein, and such designation shall be conclusively deemed to be accepted by the Company and the Administrative Agent. The parties to each such designation occurring subsequent to the execution date hereof shall execute and deliver to the Administrative Agent and the Company for their acceptance a Designation Agreement. Upon such receipt of an

appropriately completed Designation Agreement executed by a Designating Lender and a designee representing that it is a Designated Lender and consented to by the Company and the Administrative Agent, the Administrative Agent will accept such Designation Agreement and will give prompt notice thereof to the Company and the other Lenders, whereupon, (i) the Company shall execute and deliver to the Designating Lender a Designated Lender Note payable to the order of the Designated Lender, (ii) from and after the effective date specified in the Designation Agreement, the Designated Lender shall become a party to this Agreement with a right to fund Borrowings on behalf of its Designating Lender pursuant to Section 2.1(b), and (iii) the Designated Lender shall not be required to make payments with respect to any obligations in this Agreement except to the extent of excess cash flow of such Designated Lender which is not otherwise required to repay obligations of such Designated Lender which are then due and payable; provided, however, that regardless of such designation and assumption by the Designated Lender, the Designating Lender shall be and remain obligated to the Company, the Administrative Agent and the Lenders for each and every of the obligations of the Designating Lender and its related Designated Lender with respect to this Agreement, including, without limitation, any indemnification obligations under Section 11.5(c) hereof and any sums otherwise payable to the Company by the Designated Lender.

Each Designating Lender, or a specified branch or affiliate thereof, shall serve as the administrative agent of its Designated Lender and shall on behalf of its Designated Lender: (i) receive any and all payments made for the benefit of such Designated Lender and (ii) give and receive all communications and notices and take all actions hereunder, including, without limitation, votes, approvals, waivers, consents and amendments under or relating to this Agreement and the other Loan Papers. Any such notice, communication, vote, approval, waiver, consent or amendment shall be signed by a Designating Lender, or specified branch or affiliate thereof, as administrative agent for its Designated Lender and need not be signed by such Designated Lender on its own behalf. The Company, the Administrative Agent and the Lenders may rely thereon without any requirement that the Designated Lender sign or acknowledge the same. No Designated Lender may assign or transfer all or any portion of its interest hereunder or under any other Loan Paper, other than pursuant to an assignment to its Designating Lender pursuant to a pledge to its Liquidity Lender (if any) in accordance with Section 12.13(g) of this Agreement, or otherwise in accordance with the provisions of this Section 12.13.

(g) Notwithstanding any other provision set forth in this Agreement, (i) any Lender may at any time assign and pledge all or any portion of its Borrowings and its Note to any Federal Reserve Bank as collateral security pursuant to Regulation A and any Operating Circular issued by such Federal Reserve Bank. No such assignment shall release the assigning Lender from its obligations hereunder and (ii) any Designated Lender may at any time create a security interest in, or pledge, all or any portion of its rights under and interest in this Agreement and the Designated Lender Note held by it in favor of its Liquidity Bank, and such Liquidity Bank may enforce such pledge or security interest in any manner permitted under applicable law, provided that (y) such Liquidity Bank possesses the characteristics necessary to be an Eligible Assignee under this Agreement, and (z) no such pledge shall release the Designating Lender from its obligations hereunder or grant to such Liquidity Bank the rights of a Lender hereunder absent foreclosure of such pledge.

(h) Any Lender may furnish any information concerning the Company in the possession of such Lender from time to time to Eligible Assignees and Participants (including prospective Eligible Assignees and Participants), subject, however, to Section 12.15 hereof.

12.14 Discharge Only Upon Payment in Full; Reinstatement in Certain Circumstances. The Company's obligations under the Loan Papers shall remain in full force and effect until termination of the Commitment and payment in full of the Principal Debt and of all interest, fees, and other amounts of the Obligation then due and owing, except that Section 4, Section 10, and Section 12, and any other provisions under the Loan Papers expressly intended to survive by the terms hereof or by the terms of the applicable Loan Papers, shall survive such termination. If at any time any payment of the principal of or interest on any Note or any other amount payable by the Company under any Loan Paper is rescinded or must be otherwise restored or returned upon the insolvency, bankruptcy, or reorganization of the Company or otherwise, the obligations of the Company under the Loan Papers with respect to such payment shall be reinstated as though such payment had been due but not made at such time.

12.15 Confidentiality. Administrative Agent and each Lender (each, a "Lending Party") agrees to use its best efforts to keep confidential any information furnished or made available to it by the Company pursuant to this Agreement that is marked confidential; provided that nothing herein shall prevent any Lending Party from disclosing such information (a) to any other Lending Party or any officer, director, employee, agent, or advisor of any Lending Party, (b) to its auditors, accountants, legal counsel or other professional advisors, (c) as required by any law, rule, or regulation, (d) upon the order of any court or administrative agency, (e) upon the request or demand of any regulatory agency or authority, (f) that is or becomes available to the public or that is or becomes available to any Lending Party other than as a result of a disclosure by any Lending Party prohibited by this Agreement, (g) in connection with any litigation to which such Lending Party or any of its affiliates may be a party, (h) to the extent necessary in connection with the exercise of any remedy under this Agreement or any other Loan Paper, and (i) subject to provisions substantially similar to those contained in this Section, to any Affiliate of any Lending Party or to any actual or proposed participant or assignee. The Company hereby consents to the disclosure of any non-public information with respect to it which is related to this transaction by any Designated Lender to any rating agency, commercial paper dealer, or provider of a surety, guaranty or credit or liquidity enhancement to such Designated Lender.

12.16 No Bankruptcy Proceedings. Each of the Company, the Lenders and the Administrative Agent agrees that it will not institute against any Designated Lender or join any other Person in instituting against any Designated Lender any bankruptcy, reorganization, arrangement, insolvency or liquidation proceeding under any federal or state bankruptcy or similar law, for one year and one day after the payment in full of the latest maturing commercial paper note issued by such Designated Lender; provided that the Designating Lender hereby agrees to indemnify, save and hold harmless the Company, each Lender and the Administrative Agent for any loss, cost, damage and expense arising out of their inability to institute any such proceeding against its Designated Lender.

EXECUTED on the respective dates shown on the signature pages hereto, but effective as of the Closing Date.

[REMAINDER OF PAGE INTENTIONALLY BLANK.
SIGNATURE PAGES FOLLOW.]

Signature Page to that certain Term Loan Agreement dated as of April 7, 2000, among The Williams Companies, Inc., as the Company, Credit Lyonnais New York Branch, as Administrative Agent and as a Lender, Commerzbank AG, as Syndication Agent and as a Lender, The Bank of Nova Scotia, as Documentation Agent and as a Lender, and certain Lenders named therein.

Address for notices
One Williams Center, Suite 5000
Tulsa, Oklahoma 74172
Attention: Treasurer
Telephone No.: (918) 573-5551
Facsimile No.: (918) 573-2065

THE WILLIAMS COMPANIES, INC.,
a Delaware corporation

By:

Name: James G. Ivey
Title: Treasurer

With a copy to:

One Williams Center, Suite 4100
Tulsa, Oklahoma 74172
Attention: Associate General Counsel
Telephone No.: (918) 573-2613
Facsimile No.: (918) 573-4503

[THIS IS A SIGNATURE PAGE TO THE TERM LOAN AGREEMENT]

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1301 Avenue of the Americas
New York, New York 10019

CREDIT LYONNAIS NEW YORK BRANCH,
as Administrative Agent and as a Lender

By:

Name:

Title:

With a copy to:

1000 Louisiana Street, Suite 5360
Houston, Texas 77002
Attention: Mr. Robert LaRocque
Telephone No.: 713-753-8733
Facsimile No.: 713-751-0307

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1230 Peachtree Street, Suite 3500
Atlanta, Georgia 30309
Telephone: (404) 888-6518
Facsimile: (404) 888-6539

COMMERZBANK AG NEW YORK AND GRAND CAYMAN BRANCHES, as Syndication Agent, as a Lender and as a Designating Lender

By: ------------------------------------

Name: ----------------------------------

Title: ---------------------------------

By: ------------------------------------

Name: ----------------------------------

Title: ---------------------------------

FOUR WINDS FUNDING CORPORATION, as a Designated Lender

By Commerzbank Aktiengesellchaft, as Administrator and Attorney-in-Fact

By: ------------------------------------

Name: ----------------------------------

Title: ---------------------------------

With a copy to:

Attention:
Telephone No.:
Facsimile No.:

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1100 Louisiana Street, Suite 3000
Houston, Texas 77002
Telephone: (713) 759-3445
Facsimile: (713) 752-2425

THE BANK OF NOVA SCOTIA,
as Documentation Agent and as a Lender

By:

Name:

Title:

By:

Name:

Title:

With a copy to:

Attention:
Telephone No.:
Facsimile No.:

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1020 19th Street, NW, Suite 500
Washington, DC 20036
Telephone: (202) 842-7956
Facsimile: (202) 842-7955

ABU DHABI INTERNATIONAL BANK INC.,
as a Lender

By: ------------------------------------

Name: ----------------------------------

Title: ---------------------------------

By: ------------------------------------

Name: ----------------------------------

Title: ---------------------------------

With a copy to:

Attention:
Telephone No.:
Facsimile No.:

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470 Park Avenue South
32nd Street, 15th Floor
New York, New York
Telephone: (212) 251-1245
Facsimile: (212) 679-5910

BANK POLSKA KASA OPIEKI S.A.,
as a Lender

By:

Name:

Title:

With a copy to:

Attention:
Telephone No.:
Facsimile No.:

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450 Park Avenue, Suite 2900 New York, New York 10022-2698 Telephone: (212) 826-5479 Facsimile: (212) 593-4854	BANQUE WORMS CAPITAL CORP., as a Lender

By: ------------------------------------

Name: ----------------------------------

Title: ---------------------------------

By: ------------------------------------

Name: ----------------------------------

Title: ---------------------------------

With a copy to:

Attention:
Telephone No.:
Facsimile No.:

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1 World Trade Center, Suite 3211
New York, New York 10048
Telephone: (212) 390-7063
Facsimile: (212) 390-0120

CHANG HWA COMMERCIAL BANK, LTD., NEW YORK BRANCH, as a Lender

By: ------------------------------------

Name: ----------------------------------

Title: ---------------------------------

With a copy to:

Attention:
Telephone No.:
Facsimile No.:

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1 World Trade Center, 48th Floor
New York, New York 10048
Telephone: (212) 432-6627
Facsimile: (212) 912-1879

THE DAI-ICHI KANGYO BANK, LTD., as a Lender

By: -----------------------------------

Name: ---------------------------------

Title: --------------------------------

With a copy to:

Attention:
Telephone No.:
Facsimile No.:

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380 Madison Avenue, 21st Floor New York, New York 10017 Telephone: (212) 922-2323 Facsimile: (212) 922-2309	GULF INTERNATIONAL BANK, as a Lender
	By: ----------------------------------- Name: --------------------------------- Title: --------------------------------

With a copy to:

Attention:
Telephone No.:
Facsimile No.:

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2 World Trade Center, Suite 2846
New York, New York 10048
Telephone: (212) 488-2330
Facsimile: (212) 912-1050

HAU NAN COMMERCIAL BANK, LTD.,
as a Lender

By: ------------------------------------

Name: ----------------------------------

Title: ---------------------------------

With a copy to:

Attention:
Telephone No.:
Facsimile No.:

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150 East 42nd Street, 29th Floor
New York, New York 10017
Telephone: (212) 672-5446
Facsimile: (212) 672-5530

BAYERISCHE HYPO-UND VEREINSBANK AG, NEW YORK BRANCH,as a Lender

By:

Name:

Title:

By:

Name:

Title:

With a copy to:

Attention:
Telephone No.:
Facsimile No.:

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KBC BANK N.V., as a Lender

245 Peachtree Center Avenue, Suite 2550
Atlanta, Georgia 30303
Telephone: (404) 584-5466
Facsimile: (404) 584-5465

By: ------------------------------------
Name: ----------------------------------
Title: ---------------------------------

By: ------------------------------------
Name: ----------------------------------
Title: ---------------------------------

With a copy to:

Attention:
Telephone No.:
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Grosse Bleiche 54-56
Mainz, Germany 55092
Telephone: (011) 49-61-31-3580
Facsimile:

LANDESBANK RHEINLAND-PFALZ
GIROZENTRALE,
as a Lender

By: ------------------------------------

Name: ----------------------------------

Title: ---------------------------------

With a copy to:

Attention:
Telephone No.:
Facsimile No.:

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Ulsulenan Strasse
Saabrucken, Germany 266111
Telephone: (011) 49-681-383-1476

LANDESBANK SAAR GIROZENTRALE,
as a Lender

By: -----------------------------------

Name: ---------------------------------

Title: --------------------------------

With a copy to:

Attention:
Telephone No.:
Facsimile No.:

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2250 East 73rd Street, Suite 200
Tulsa, Oklahoma 74136
Telephone: (918) 494-3874
Facsimile: (918) 495-1284

LOCAL OKLAHOMA BANK, N.A.,
as a Lender

By:

Name:

Title:

With a copy to:

Attention:
Telephone No.:
Facsimile No.:

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299 Park Avenue, 17th Floor
New York, New York 10171
Telephone: (212) 303-9878
Facsimile: (212) 888-2958

NATIONAL BANK OF KUWAIT, S.A.K., GRAND CAYMAN BRANCH, as a Lender

By:

Name:

Title:

By:

Name:

Title:

With a copy to:

Attention:
Telephone No.:
Facsimile No.:

[THIS IS A SIGNATURE PAGE TO THE TERM LOAN AGREEMENT]

Signature Page to that certain Term Loan Agreement dated as of April 7, 2000, among The Williams Companies, Inc., as the Company, Credit Lyonnais New York Branch, as Administrative Agent and as a Lender, Commerzbank AG, as Syndication Agent and as a Lender, The Bank of Nova Scotia, as Documentation Agent and as a Lender, and certain Lenders named therein, including the undersigned.

1200 Smith Street, Suite 3100
Houston, Texas 77002
Telephone: (713) 982-1156
Facsimile: (713) 859-6915

PARIBAS, as a Lender

By:

Name:

Title:

By:

Name:

Title:

With a copy to:

Attention:
Telephone No.:
Facsimile No.:

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THE ROYAL BANK OF SCOTLAND, plc,
as a Lender

By: ___________________________________
Name: _________________________________
Title: ________________________________

Wall Street Plaza
88 Pine Street, 26th Floor
New York, New York 10005-1801
Telephone: (212) 269-1706
Facsimile: (212) 480-0791

With a copy to:

Attention:
Telephone No.:
Facsimile No.:

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Signature Page to that certain Term Loan Agreement dated as of April 7, 2000, among The Williams Companies, Inc., as the Company, Credit Lyonnais New York Branch, as Administrative Agent and as a Lender, Commerzbank AG, as Syndication Agent and as a Lender, The Bank of Nova Scotia, as Documentation Agent and as a Lender, and certain Lenders named therein, including the undersigned.

277 Park Avenue, 6th Floor
New York, New York 10172
Telephone: (212) 224-4194
Facsimile: (212) 224-5188

THE SUMITOMO BANK, LIMITED,
as a Lender

By:

Name:

Title:

With a copy to:

Attention:
Telephone No.:
Facsimile No.:

[THIS IS A SIGNATURE PAGE TO THE TERM LOAN AGREEMENT]

Signature Page to that certain Term Loan Agreement dated as of April 7, 2000, among The Williams Companies, Inc., as the Company, Credit Lyonnais New York Branch, as Administrative Agent and as a Lender, Commerzbank AG, as Syndication Agent and as a Lender, The Bank of Nova Scotia, as Documentation Agent and as a Lender, and certain Lenders named therein, including the undersigned.

1251 Avenue of the Americas
New York, New York 10020
Telephone: (212) 282-4065
Facsimile: (212) 282-4250

THE INDUSTRIAL BANK OF JAPAN TRUST COMPANY
as a Lender

By:

Name:

Title:

[THIS IS A SIGNATURE PAGE TO THE TERM LOAN AGREEMENT]

Signature Page to that certain Term Loan Agreement dated as of April 7, 2000, among The Williams Companies, Inc., as the Company, Credit Lyonnais New York Branch, as Administrative Agent and as a Lender, Commerzbank AG, as Syndication Agent and as a Lender, The Bank of Nova Scotia, as Documentation Agent and as a Lender, and certain Lenders named therein, including the undersigned.

55 East 52nd Street, 11th Floor
New York, New York 10055
Telephone: (212) 339-1052
Facsimile: (212) 832-1428

THE TOKAI BANK, LIMITED - NEW YORK BRANCH, as a Lender

By: ------------------------------------

Name: ----------------------------------

Title: ---------------------------------

With a copy to:

Attention:
Telephone No.:
Facsimile No.:

[THIS IS A SIGNATURE PAGE TO THE TERM LOAN AGREEMENT]

EXHIBIT A

FORM OF TERM NOTE

$_______________ April 7, 2000

FOR VALUE RECEIVED, the undersigned, THE WILLIAMS COMPANIES, INC., a Delaware corporation ("The Company"), hereby promises to pay to the order of ____________ (the "Lender"), at the offices of CREDIT LYONNAIS NEW YORK BRANCH, as Administrative Agent for the Lender and others as hereinafter described, on the Maturity Date, the lesser of (i) __________($) and (ii) the aggregate Principal Debt disbursed by the Lender to the Company and outstanding and unpaid on the Maturity Date (together with accrued and unpaid interest thereon).

This note has been executed and delivered under, and is subject to the terms of, the Term Loan Agreement, dated as of April 7, 2000 (as amended, modified, supplemented, or restated from time to time, the "Agreement"), among the Company, the Lender and other lenders named therein, and the Administrative Agent, and is one of the "Term Notes" referred to therein. Unless defined herein, capitalized terms used herein that are defined in the Agreement have the meaning given to such terms in the Agreement. Reference is made to the Agreement for provisions affecting this note regarding applicable interest rates, principal and interest payment dates, final maturity, voluntary and mandatory prepayments, acceleration of maturity, exercise of Rights, payment of attorneys' fees, court costs and other costs of collection, certain waivers by the Company and others now or hereafter obligated for payment of any sums due hereunder and security for the payment hereof. Without limiting the immediately preceding sentence, reference is made to Section 3.8 of the Agreement for usury savings provisions.

THE LAWS OF THE STATE OF NEW YORK AND OF THE UNITED STATES OF AMERICA SHALL GOVERN THE RIGHTS AND DUTIES OF THE COMPANY AND THE LENDER AND THE VALIDITY, CONSTRUCTION, ENFORCEMENT, AND INTERPRETATION HEREOF.

THE WILLIAMS COMPANIES, INC.

By

James G. Ivey
Treasurer

EXHIBIT B-1

EXHIBIT B-1

FORM OF NOTICE OF BORROWING

-------------- --, ----

Credit Lyonnais New York Branch,
as Administrative Agent for the
Lenders as defined in the Term
Loan Agreement referred to below
1301 Avenue of the Americas
New York, New York 10019

Attn:
Fax: (214)

Reference is made to the Term Loan Agreement, dated as of (as amended, modified, supplemented, or restated from time to time, "Agreement"), among the undersigned, the Lenders named therein, and the Administrative Agent. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Term Loan Agreement. The undersigned hereby gives you notice pursuant to the Agreement that it requests a Borrowing under the Agreement, and in that connection sets forth below the terms on which such Borrowing is requested to be made:

(A)	Borrowing Date of Borrowing*	(A)	--------
(B)	Amount of Borrowing**	(B)	--------
(C)	Type of Borrowing***	(C)	--------
(D)	For a Eurodollar Rate Borrowing, the Interest Period and the last day thereof****	(D)	--------

On the date the rate is set, please confirm the interest rate below and return by facsimile transmission to _____________________________________.

The Company hereby certifies that the following statements are true and correct on the date hereof, and will be true and correct on the Borrowing Date specified herein after giving effect to such Borrowing:

(a) this Borrowing will not cause the Commitment Usage to exceed the Commitment;

(b) all of the representations and warranties of any the Company set forth in the Loan Papers are true and correct in all material respects;

(c) no Default or Potential Default has occurred and is continuing; and

(d) the funding of such Borrowing is permitted by Law.

Very truly yours,

THE WILLIAMS COMPANIES, INC.

By: ---------------------------

(Name): -----------------------

(Title) -----------------------

Term Facility Rate: ----------

Confirmed by: --

* Must be a Business Day occurring during the Commitment Period and be at least three (3) Business Days following receipt by Administrative Agent of this Notice of Borrowing for any Eurodollar Rate Borrowing.

** Not less than $50,000,000 or a greater integral multiple of $1,000,000 (or the remaining balance of the Unused Commitment, if less).

*** Eurodollar Rate Borrowing or Base Rate Borrowing.

**** Eurodollar Rate Borrowing -- 1, 2, 3, or 6 months.

EXHIBIT B-2

FORM OF NOTICE OF CONVERSION

-------------- --, ----

Credit Lyonnais New York Branch,
as Administrative Agent for the
Lenders as defined in the Term
Loan Agreement referred to below
1301 Avenue of the Americas
New York, New York 10019

Attn:
Fax: (214)

Reference is made to (i) the Term Loan Agreement, dated as of _____________ (as amended, modified, supplemented, or restated from time to time, "Agreement"), among the undersigned, the Lenders named therein, and the Administrative Agent. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Agreement. The undersigned hereby gives you notice pursuant to Section 3.10 of the Agreement that it elects to convert a Borrowing from one Type to another Type or elects a new Interest Period for a Eurodollar Rate Borrowing, and in that connection, sets forth below the terms on which such election is requested to be made:

(A) Borrowing Date of Borrowing* (A) -------

(B) Amount of Borrowing** (B) -------

(C) Type of Borrowing*** (C) -------

(D) For conversion to, or continuation of, a Eurodollar Rate Borrowing, the Interest Period and the last day thereof**** (D) -------

On the date the rate is set, please confirm the interest rate below and return by facsimile transmission to ______________________________________.

Very truly yours,

THE WILLIAMS COMPANIES, INC.

By: ----------------------------

(Name): ------------------------

(Title) ------------------------

Term Facility Rate: ----------

Confirmed by: ---------------------

* Must be a Business Day at least three (3) Business Days following receipt by Administrative Agent of this Notice of Conversion from a Base Rate Borrowing to a Eurodollar Rate Borrowing or a continuation of a Eurodollar Rate Borrowing for an additional Interest Period.

** Not less than $5,000,000 or an integral multiple of $1,000,000.

*** Eurodollar Rate Borrowing or Base Rate Borrowing.

**** Eurodollar Rate Borrowing -- 1, 2, 3, or 6 months. In no event may the Interest Period end after the Maturity Date.

EXHIBIT C

EXHIBIT C

FORM OF ASSIGNMENT AND ACCEPTANCE AGREEMENT

Reference is made to the Term Loan Agreement dated as of April 7, 2000 (as amended, modified, supplemented, or restated from time to time, the "Agreement") among THE WILLIAMS COMPANIES, INC., a Delaware corporation (the "Company"), the Lenders, (each such term as defined in the Agreement), and CREDIT LYONNAIS NEW YORK BRANCH, as the Administrative Agent for Lenders ("Administrative Agent"). Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Agreement.

The "Assignor" and the "Assignee" referred to on Schedule 1 agree as follows:

1. The Assignor hereby sells and assigns to the Assignee, without recourse and without representation or warranty except as expressly set forth herein, and the Assignee hereby purchases and assumes from the Assignor, an interest in and to the Assignor's Rights and obligations under the Agreement and the related Loan Papers as of the date hereof equal to the percentage interest specified on Schedule 1. After giving effect to such sale and assignment, the Assignor's and the Assignee's Committed Sums and the amount of the Borrowings under the Term Facility owing to each of them will be as set forth on Schedule 1.

2. The Assignor (i) represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim; (ii) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Loan Papers or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Papers or any other instrument or document furnished pursuant thereto; (iii) makes no representation or warranty and assumes no responsibility with respect to the financial condition of any party to any Loan Paper or the performance or observance by any such party of any of its obligations under the Loan Papers or any other instrument or document furnished pursuant thereto; and (iv) attaches the Note held by the Assignor and requests that Administrative Agent exchange such Note for new Notes. Such new Notes shall be prepared in accordance with the provisions of Section 3.1(a) of the Agreement and will reflect the respective Committed Sums of the Assignee and the Assignor after giving effect to this Assignment and Acceptance.

3. The Assignee (i) confirms that it has received a copy of the Agreement, together with copies of the current financials statements of the Company furnished pursuant to the Agreement and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Acceptance; (ii) agrees that it will, independently and without reliance upon the Administrative Agent, the Assignor, or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Agreement; (iii) confirms that it is an Eligible Assignee; (iv) appoints and authorizes Administrative Agent to take such action as Administrative Agent on its behalf and to exercise such powers and discretion under the Agreement as are delegated to Administrative Agent by the terms thereof, together with such powers and discretion as are reasonably incidental thereto; (v) agrees that it will perform in accordance with their terms all of the obligations that by the terms of the Agreement are required to be performed by it as a Lender.

4. Following the execution of this Assignment and Acceptance, it will be delivered to Administrative Agent for acceptance and recording by the Administrative Agent. The effective date for

this Assignment and Acceptance (the "Effective Date") shall be the date of acceptance hereof by Administrative Agent, unless otherwise specified on Schedule 1.

5. Upon such acceptance and recording by Administrative Agent, as of the Effective Date, (i) the Assignee shall be a party to the Agreement and, to the extent provided in this Assignment and Acceptance, have the Rights and obligations of a Lender thereunder, and (ii) the Assignor shall, to the extent provided in this Assignment and Acceptance, relinquish its Rights and be released from its obligations under the Agreement.

6. Upon such acceptance and recording by Administrative Agent, from and after the Effective Date, Administrative Agent shall make all payments under the Agreement, the Notes, and loan accounts in respect of the interest assigned hereby (including, without limitation, all payments of principal, interest, and commitment fees and other fees with respect thereto) to the Assignee. The Assignor and Assignee shall make all appropriate adjustments in payments under the Agreement and the other Loan Papers for periods prior to the Effective Date directly between themselves.

7. Unless the Assignee is a Lender or an Affiliate of a Lender (and this sale and assignment is not made in connection with the sale of such Affiliate), this Assignment and Acceptance may be conditioned upon the consent of the Company and Administrative Agent pursuant to the definition of "Eligible Assignee" in the Agreement. The execution and delivery of this Assignment and Acceptance by the Company and Administrative Agent is evidence of this consent.

8. As contemplated by Section 12.13(b)(vi) of the Agreement, the Assignor or the Assignee (as determined between the Assignor and the Assignee) agrees to pay to Administrative Agent for its account on the Effective Date in federal funds a processing fee of $3,000.

9. THIS ASSIGNMENT AND ACCEPTANCE SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE UNITED STATES OF AMERICA AND THE STATE OF NEW YORK.

10. This Assignment and Acceptance may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of Schedule 1 to this Assignment and Acceptance by Telecopied shall be effective as delivery of a manually executed counterpart of this Assignment and Acceptance.

IN WITNESS WHEREOF, the Assignor and the Assignee have caused Schedule 1 to this Assignment and Acceptance to be executed by their officers hereunto duly authorized as of the date specified thereon.

EXHIBIT C

SCHEDULE 1
to
ASSIGNMENT AND ACCEPTANCE AGREEMENT
(Term Facility)

1. Assigned Interest:

(a) Assignor's Committed Sum prior to giving effect to the Assignment to Assignee $ --------

(b) Aggregate Borrowings owed to Assignor, immediately prior to giving effect to the assignment to Assignee $ --------

(c) Percentage Interest in Commitment and Borrowings being assigned to Assignee by Assignor. % --------

2. Adjustments after giving effect to Assignment between Assignor and Assignee:

(a) Assignor's Committed Sum $ --------

(b) Assignee's Committed Sum acquired from Assignor pursuant to this Assignment $ --------

(c) Assignor's aggregate Borrowings $ --------

(d) Assignee's Borrowings acquired from Assignor pursuant to this Assignment $ --------

3. Effective Date (if other than date of acceptance by Administrative Agent): * ------------- ---, ------

EXHIBIT C

SCHEDULE 1
to
ASSIGNMENT AND ACCEPTANCE AGREEMENT
(Term Facility)
(Page 2 of 2)

[NAME OF ASSIGNOR], as Assignor

By:

Title:

Dated:

[NAME OF ASSIGNEE], as Assignee

By:

Title:

Dated:

EXHIBIT C

If Section 12.13(b) and clause (c) of the definition of "Eligible Assignee" of the Agreement so require, the Company and Administrative Agent consent to this Assignment and Acceptance.

THE WILLIAMS COMPANIES, INC.,
as The Company

By:

Title:

Dated:

CREDIT LYONNAIS NEW YORK BRANCH,
as Administrative Agent

By:

Title:

Dated:
----

* This date should be no earlier than five Business Days after the delivery of this Assignment and Acceptance to Administrative Agent.

EXHIBIT C

EXHIBIT D

FORM OF OPINION OF GENERAL COUNSEL OF THE COMPANY

Credit Lyonnais New York Branch, in its capacities as
Administrative Agent
Commerzbank AG New York and Grand Cayman Branches, as Syndication Agent
The Bank of Nova Scotia, as Documentation Agent

Each of the Lenders named in Schedules 2.1 to the Agreement referred to below

Re: Term Loan Facility of The Williams Companies, Inc.

Ladies and Gentlemen:

This opinion is furnished to you pursuant to Section 6.1 of the Term Loan Agreement dated as of April 7, 2000 (the "Agreement"), by and among The Williams Companies, Inc. (the "Company"), the Lenders described therein, The Bank of Nova Scotia, as Documentation Agent, Commerzbank AG New York and Grand Cayman Branches, as Syndication Agent, and Credit Lyonnais New York Branch, as Administrative Agent for the Lenders (the "Administrative Agent"). Terms defined in the Agreement are used herein as therein defined.

I am the General Counsel of the Company, and I and other attorneys acting under my supervision have acted as counsel for the Company in connection with the preparation, execution, and delivery of the Agreement.

In that connection, I or attorneys acting under my supervision have examined:

(1) Original counterparts of the Agreement executed by the Company, the Lenders, and the Agents;

(2) The documents furnished by the Company pursuant to Section 6.1 of the Agreement;

(3) The Certificate of Incorporation of the Company and all amendments thereto (the "Charter");

(4) The Bylaws of the Company and all amendments thereto (the "Bylaws"); and

(5) The Certificate of the Secretary of State of the State of Delaware dated March 31, 2000, attesting to the continued corporate existence and good standing of the Company in that State.

I, or attorneys acting under my supervision, have also examined the originals, or copies certified to our satisfaction, of such corporate records of the Company, certificates of public officials and of officers of the Company and agreements, instruments, and other documents, as I have deemed necessary as a basis for the opinions expressed below. As to questions of fact material to such opinions, I have, when relevant facts were not independently established by me or attorneys acting under my supervision, relied upon certificates of officers of the Company or of public officials. I have assumed (i) the genuineness of the signatures of the Agents and the Lenders, (ii) the capacity of the signing officers of the

Agents and the Lenders, (iii) the authenticity of all documents submitted to me as originals and the conformity with the authentic originals of all documents submitted to me as copies, and (iv) the due execution and delivery, pursuant to due authorization, of the Agreement by the Agents and the Lenders and the enforceability (subject to limitations on enforceability of the types referred to in paragraphs (a) through (c) of this opinion) of the Agreement against the Agents and the Lenders.

Based upon the foregoing and upon such investigation as I have deemed necessary, I am of the following opinion:

1. The Company (a) is a corporation duly organized, validly existing, and in good standing under the Laws of the State of Delaware, and (b) possesses all requisite corporate authority and power to conduct its business and execute, deliver, and comply with the terms of the Loan Papers, which have been duly authorized and approved by all necessary corporate action and for which, to the best of my knowledge, no approval or consent of any Person or Governmental Authority is required which has not been obtained.

2. Each of the Loan Papers has been duly executed and delivered by the Company.

3. The Loan Papers evidence the valid and legally binding obligations of the Company, enforceable against the Company in accordance with their respective terms.

4. The execution, delivery, and performance by the Company of the Loan Papers, and the Borrowings and use of the proceeds of the Borrowings thereunder as provided therein, (i) will not violate (A) the Charter or Bylaws of the Company; (B) any provision of law applicable to the Company (including, without limitation, Regulation X of the Board of Governors of the Federal Reserve System); or (C) any contractual or legal restriction of the Company of which I am aware, after reasonable inquiry, and (ii) will not result in, or require, the creation or imposition of any Lien prohibited by the Agreement.

5. To my knowledge, there is no reason the Company cannot make the representations set forth in Section 7.6 of the Agreement.

6. The execution, delivery, and performance by the Company of each of the Loan Papers to which it is a party will not violate any applicable Law of the State of New York, except for any such violations which could not reasonably be expected to have, either individually or in the aggregate, a material and adverse effect on the operations, financial condition or business of the Company and its Subsidiaries, taken as a whole.

The opinions set forth above are subject to the following qualifications:

(a) My opinion in paragraph 3 above is subject, insofar as enforceability is concerned, to the effect of bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or similar law affecting creditors' rights and remedies generally.

(b) My opinion in paragraph 3 above is subject, insofar as enforceability is concerned, to the effect of general principles of equity, including principles of commercial reasonableness, good faith, and fair dealing (regardless of whether considered in a proceeding in equity or at law).

(c) I express no opinion with respect to the enforceability of any of the following: indemnification provisions to the extent same are violative of federal or state securities laws,

rules, or regulations or of public policy, clauses waiving right to trial by jury, exculpation clauses, clauses granting offset rights to the Agents or any Lender or against any deposits or in respect of matured claims, clauses relating to recovery of attorneys' fees in connection with the enforcement of obligations, clauses relating to releases of unmatured claims, integration clauses to the effect that no representation was made other than as appears in the Agreement, clauses purporting to waive unmatured rights, representations, warranties, or affirmative or negative covenants to the extent such representations, warranties, or affirmative or negative covenants can be construed to be independent clauses which purport to be legal, valid, binding, and enforceable by themselves, as distinguished from being clauses which trigger an event of default, and severability and similar clauses, and clauses which incorporate by reference a document, instrument, or agreement not in existence on the date hereof to the extent that any such document, instrument, or agreement is the basis of an effort to enforce the Agreement, insofar as any of the foregoing are contained in the Agreement.

(d) I express no opinion as to the effect on the opinions herein stated of compliance or non-compliance by the Agents or any Lender with any applicable state, federal, or other laws or regulations applying only to banks, or the legal or regulatory status of any Agent or any Lender.

(e) I am admitted to practice law in the States of New York and Oklahoma and, accordingly, the opinions expressed herein are based upon and limited exclusively to the laws of the States of New York and Oklahoma, the General Corporation Law of the State of Delaware, and the laws of the United States of America insofar as any of such laws are applicable, and I render no opinion with respect to any other laws.

(f) My opinion in paragraph 1 above as to the good standing of the Company is based solely on the certificate, dated as of March 31, 2000, from the Secretary of State of the State of Delaware certifying as to such matters.

This opinion is addressed to you solely for your use in connection with the transactions contemplated by the Loan Papers, and no person other than the Agents, each Lender, each assignee which hereafter becomes a Lender as permitted by the Agreement and the law firm of Haynes and Boone, LLP is entitled to rely hereon without my prior written consent. This opinion is given as of the date hereof, and I have no obligation to revise or update this opinion subsequent to the date hereof or to advise you or any other person of any matter subsequent to the date hereof which would cause me to modify this opinion in whole or in part.

Very truly yours,

William G. von Glahn
General Counsel

EXHIBIT E

FORM OF DESIGNATION AGREEMENT

Dated _________________, 2000

Reference is made to that certain Term Loan Agreement dated as of April 7, 2000 (as amended, supplemented or otherwise modified from time to time, the "Agreement") by and among The Williams Companies, Inc. (the "Company"), the Lenders parties thereto, and Credit Lyonnais, New York Branch, as Administrative Agent (the "Administrative Agent"). Terms defined in the Credit Agreement are used herein with the same meaning.

[NAME OF DESIGNATING LENDER] (the "Designating Lender"), [NAME OF DESIGNEE] (the "Designee"), the Administrative Agent and the Company agree as follows:

1. Pursuant to Section 2.1(b) of the Agreement, the Designating Lender hereby designates the Designee, and the Designee hereby accepts such designation, to have a right to fund Borrowings pursuant to Section 2.1(a) of the Agreement. Any delegation by Designating Lender to Designee of its rights to fund Borrowings pursuant to such Section 2.1(b) shall be effective at the time of the funding of such Borrowing and not before such time.

2. Except as set forth in Section 7 below, the Designating Lender makes no representation or warranty and assumes no responsibility pursuant to this Designation Agreement with respect to (a) any statements, warranties or representations made in or in connection with any Loan Paper or the execution, legality, validity, enforceability, genuineness, sufficiency or value of any Loan Paper or any other instrument and document furnished pursuant thereto and (b) the financial condition of the Company or the performance or observance by the Company of any of its obligations under any Loan Paper or any other instrument or document furnished pursuant thereto.

3. The Designee (a) confirms that it has received a copy of each Loan Paper, together with copies of the financial statements referred to in Sections 7.5 and 8.2 of the Agreement and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Designation Agreement; (b) agrees that it will independently and without reliance upon the Administrative Agent, the Designating Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under any Loan Paper; (c) confirms that it is a Designated Lender; (d) appoints and authorizes the Administrative Agent to take such action as Administrative Agent on its behalf and to exercise such powers and discretion under any Loan Paper as are delegated to the Administrative Agent by the terms thereof, together with such powers and discretion as are reasonably incidental thereto; and (e) agrees that it will perform in accordance with their terms all of the obligations which by the terms of any Loan Paper are required to be performed by it as a Lender.

4. The Designee hereby appoints [Designating Lender or a specified branch or affiliate of Designating Lender] as Designee's Administrative Agent and attorney in fact and grants to [Designating Lender or a specified branch or affiliate of Designating Lender] an irrevocable power of attorney to receive payments made for the benefit of Designee under the Agreement, to deliver and receive all communications and notices under the Agreement and other Loan Papers and to exercise on Designee's behalf all rights to vote and to grant and make approvals, waivers, consents of amendments to or under the Agreement or other Loan Papers. Any document executed by such Administrative Agent on the Designee's behalf in connection with the Agreement or other Loan Papers shall be binding on the

Designee. The Company, the Administrative Agent and each of the Lenders may rely on and are beneficiaries of the preceding provisions.

5. Following the execution of this Designation Agreement by the Designating Lender, its Designee and the Company, it will be delivered to the Administrative Agent for acceptance and recording by the Administrative Agent. The effective date for this Designation Agreement (the "Effective Date") shall be the date of acceptance hereof by the Administrative Agent, unless otherwise specified on the signature page thereto.

6. Each of the Company, the Designating Lender and the Administrative Agent hereby (i) acknowledges that the Designee is relying on the non-petition provisions of Section 12.16 of the Agreement as agreed to by all signatories thereto and (ii) reaffirms that it will not institute against the Designee or join any other Person in instituting against the Designee any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings under any federal or state bankruptcy or similar law for one year and one day after the payment in full of the latest maturing commercial paper note issued by the Designee.

7. The Designating Lender unconditionally agrees to pay or reimburse the Designee and save the Designee harmless against all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed or asserted by any of the parties to the Loan Papers against the Designee, in its capacity as such, in any way relating to or arising out of this Agreement or any other Loan Papers or any action taken or omitted by the Designee hereunder or thereunder, provided that the Designating Lender shall not be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements if the same results from the Designee's gross negligence or willful misconduct.

8. Upon such acceptance and recording by the Administrative Agent, as of the Effective Date, the Designee shall be a party to the Agreement with a right to fund Borrowings as a Designated Lender pursuant to Section 2.1(b) of the Agreement and the rights and obligations of a Designated Lender related thereto; provided, however, that the Designee shall not be required to make payments with respect to such obligations except to the extent of excess cash flow of the Designee which is not otherwise required to repay obligations of the Designee Lender which are then due and payable. Notwithstanding the foregoing, the [Designating Lender or a specified branch or affiliate of Designating Lender], as administrative agent for the Designee, shall be and remain obligated to the Company, the Administrative Agent and the Lenders for each and every of the obligations of the Designee and the Designating Lender with respect to the Agreement, including, without limitation, any indemnification obligations under Section 11.5(c) of the Agreement and any sums otherwise payable to the Company by the Designee.

9. This Designation Agreement shall be governed by and construed in accordance with the laws of the State of New York.

10. This Designation Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Designation Agreement by facsimile transmission shall be effective as delivery of a manually executed counterpart of this Designation Agreement.

IN WITNESS WHEREOF, the Designating Lender and the Designee intending to be legally bound, have caused this Designation Agreement to be executed by their officers hereunto duly authorized as of the date first above written.

[NAME OF DESIGNATING LENDER],
as Designating Lender

By:

Title:

[NAME OF DESIGNEE], as Designee

By:

Title:

Lending Office (and address for notices):

THE WILLIAMS COMPANIES, INC.,
as Company

By:

Title:

Accepted this ___ day
of __________, 2000

Effective Date:

CREDIT LYONNAIS, NEW YORK BRANCH
as Administrative Agent

By:

Title:

EXHIBIT E

SCHEDULE I

PERMITTED LIENS

(a) Any purchase money Lien created by the Company or any of its Subsidiaries to secure all or part of the purchase price of any property (or to secure a loan made to enable the Company or any of its Subsidiaries to acquire the property secured by such Lien), provided that the principal amount of the Debt secured by any such Lien, together with all other Debt secured by a Lien on such property, shall not exceed the purchase price of the property acquired.

(b) Any Lien existing on any property at the time of the acquisition thereof by the Company or any of its Subsidiaries, whether or not assumed by the Company or any of its Subsidiaries, and any Lien on any property acquired or constructed by the Company or any of its Subsidiaries and created not later than 12 months after (i) such acquisition or completion of such construction or (ii) commencement of full operation of such property, which is later; provided, however, that if assumed or created by the Company or any of its Subsidiaries, the principal amount of the Debt secured by such Lien, together with all other Debt secured by a Lien on such property, shall not exceed the purchase price of the property acquired and/or the cost of the property constructed.

(c) Any Lien created or assumed by the Company or any of its Subsidiaries on any contract for the sale of any product or service or any rights thereunder or any proceeds therefrom, including accounts and other receivables, related to the operation or use of any property acquired or constructed by the Company or any of its Subsidiaries and created not later than 12 months after (i) such acquisition or completion of such construction or (ii) commencement of full operation of such property, which is later, provided, however, that the principal amount of the Debt secured by such mortgage together with all other Debt secured by any such contract, rights or property, shall not exceed the purchase price of the property acquired and/or the cost of the property constructed.

(d) Any Lien existing on any property of a Subsidiary of the Company at the time it becomes a Subsidiary of the Company.

(e) Any refunding or extension of maturity, in whole or in part, of any Lien created or assumed in accordance with the provisions of paragraph (a), (b), (c) or (d) above or (j) below, provided that the principal amount of the Debt secured by such refunding Lien or extended Lien shall not exceed the principal amount of the Debt secured by the Lien to be refunded or extended outstanding at the time of such refunding or extension and that such refunding Lien or extended Lien shall be limited to the same property that secured the Lien so refunded or extended.

(f) Mechanics' or material men's liens arising in the ordinary course of business which are not more than 90 days past due or are being contested in good faith by appropriate proceedings or any Lien arising by reason of pledges or deposits to secure payment of workmen's compensation or other insurance, good faith deposits in connection with tenders or leases of real estate, bids or contracts (other than contracts for the payment of money), in each case to secure obligations of the Company or any of its Subsidiaries.

(g) Deposits to secure public or statutory obligations, deposits to secure or in lieu of surety, stay or appeal bonds and deposits as security for the payment of taxes or assessments or other similar charges, in each case to secure obligations of the Company or any of its Subsidiaries; provided, however, that the aggregate amount of obligations secured by Liens permitted by this paragraph (g) shall not exceed 10% of Consolidated Tangible Net Worth of the Company.

(h) Any Lien arising by reason of deposits with or the giving of any form of security to any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation (i) as a condition to the transaction by the Company or any of its Subsidiaries of any business or the exercise by the Company or any of its Subsidiaries of any privilege or license, (ii) to enable the Company or any of its Subsidiaries to maintain self-insurance or to participate in any fund for liability on any insurance risks or (iii) in connection with workmen's compensation, unemployment insurance, old age pensions or other social security with respect to the Company or any of its Subsidiaries or to enable the Company or any of its Subsidiaries to share in the privileges or benefits required for companies participating in such arrangements.

(i) Any Lien which is payable, both with respect to principal and interest, solely out of the proceeds of oil, gas, coal or other minerals or timber to be produced from the property subject thereto and to be sold or delivered by the Company or any of its Subsidiaries, including any interest of the character commonly referred to as a "production payment."

(j) Any Lien created or assumed by a Subsidiary of the Company on oil, gas, coal or other mineral or timber property, owned or leased by such Subsidiary to secure loans to such Subsidiary for the purposes of developing such properties, including any interest of the character commonly referred to as a "production payment"; provided, however, that neither the Company nor any other Subsidiary of the Company shall assume or guarantee such loans or otherwise be liable in respect thereto.

(k) Liens incurred in the ordinary course of business upon rights-of-way.

(l) Undetermined mortgages and charges incidental to construction or maintenance arising in the ordinary course of business which are not more than 90 days past due or are being contested in good faith by appropriate proceedings.

(m) The right reserved to, or vested in, any municipality or governmental or other public authority or railroad by the terms of any right, power, franchise, grant, license, permit or by any provision of law, to terminate or to require annual or other periodic payments as a condition to the continuance of such right, power, franchise, grant, license or permit.

(n) The Lien of taxes and assessments which are not at the time delinquent.

(o) The Lien of specified taxes and assessments which are delinquent but the validity of which is being contested in good faith by the Company or any of its Subsidiaries by appropriate proceedings and with respect to which reserves in conformity with generally accepted accounting principles, if required by such principles, have been provided on the books of the Company or the relevant Subsidiary of the Company, as the case may be.

(p) The Lien reserved in leases entered into in the ordinary course of business for rent and for compliance with the terms of the lease in the case of real property leasehold estates.

(q) Defects and irregularities in the titles to any property (including rights-of-way and easements) which are not material to the business, assets, operations or financial condition of the Company and its Subsidiaries considered as a whole.

(r) Any Liens securing Debt neither assumed nor guaranteed by the Company or any of its Subsidiaries nor on which any of them customarily pays interest, existing upon real estate or rights in or relating to real estate (including rights-of-way and easements) acquired by the Company or any of its

Subsidiaries for pipeline, metering station or right-of-way purposes, which Liens were not created in anticipation of such acquisition and do not materially impair the use of such property for the purposes for which it is held by the Company or such Subsidiary.

(s) Easements, exceptions or reservations in any property of the Company or any of its Subsidiaries granted or reserved in the ordinary course of business for the purpose of pipelines, roads, telecommunication equipment and cable, streets, alleys, highways, railroads, the removal of oil, gas, coal or other minerals or timber, and other like purposes, or for the joint or common use of real property, facilities and equipment, which do not materially impair the use of such property for the purposes for which is held by the Company or such Subsidiary.

(t) Rights reserved to or vested in any municipality or public authority to control or regulate any property of the Company or any of its Subsidiaries, or to use such property in any manner which does not materially impair the use of such property for the purposes for which it is held by the Company or such Subsidiary.

(u) Any obligations or duties, affecting the property of the Company or any of its Subsidiaries, to any municipality or public authority with respect to any franchise, grant, license or permit.

(v) (i) The Liens of any judgments in an aggregate amount for the Company and all of its Subsidiaries not in excess of $5,000,000, the execution of which has not been stayed and (ii) the Liens of any judgments in an aggregate amount for the Company and all of its Subsidiaries not in excess of $25,000,000, the execution of which has been stayed and which have been appealed and secured, if necessary and permitted hereby, by the filing of an appeal bond.

(w) Zoning laws and ordinances.

(x) Any Lien existing on any office equipment, data processing equipment (including computer and computer peripheral equipment), motor vehicles, aircraft, marine vessels or similar transportation equipment.

(y) Any Lien consisting of interests in receivables in connection with agreements for sales of receivables of any kind by the Company or any of its Subsidiaries for cash.

(z) Any Lien not permitted by paragraphs (a) through (y) or (aa) below securing Debt of the Company and its Subsidiaries or securing any Debt of the Company and its Subsidiaries which constitutes a refunding or extension of any such Debt if at the time of, and after giving effect to, the creation or assumption of any such Lien, the sum of the aggregate of all Debt of the Company and its Subsidiaries secured by all such Liens not so permitted by paragraphs (a) through (y) or (aa) below plus the amount of Attributable Obligations of the Company and its Subsidiaries in respect of Sale and Lease-Back Transactions permitted by Section 8.14 does not exceed 5% of the sum of (i) Consolidated Tangible Net Worth of the Company plus (ii) Debt of the Company and its Subsidiaries on a Consolidated basis.

(aa) Any overriding royalties or other rights of Pacific Northwest Pipeline Corporation, a Delaware corporation ("Pacific") and Phillips Petroleum Company ("Phillips") or their respective successors in interest under a contract dated January 9, 1953, as amended, between Phillips and Pacific, to which the Company is successor in interest; and the obligations of the Company to surrender, transfer, release or reassign the leases or interests or rights to which said instruments relate under the conditions and upon the occurrence of the events specified in said instruments.

SCHEDULE II

Material Controversies

None

SCHEDULE II

SCHEDULE 2.1

LENDERS AND COMMITMENTS

NAME AND ADDRESS OF LENDERS	TERM FACILITY COMMITTED SUMS	PERCENTAGE OF TOTAL COMMITMENT
Credit Lyonnais New York Branch 1301 Avenue of the Americas New York, New York 10019	$ 50,000,000.00	12.50000%
Commerzbank AG New York and Grand Cayman Branches 1230 Peachtree Street, Northeast, Suite 3500 Atlanta, Georgia 30309	$ 30,000,000.00	7.50000%
The Bank of Nova Scotia 600 Peachtree Street, Northeast, Suite 2700' Atlanta, Georgia 30308	$ 20,000,000.00	5.00000%
Bayerische Hypo-Und Vereinsbank AG, New York Branch 150 East 42nd Street, 29th Floor New York New York 10048	$ 45,000,000.00	11.25000%
Industrial Bank of Japan Trust Company 3 Allen Center 333 Clay Street, Suite 4850 Houston, Texas 77002	$ 30,000,000.00	7.50000%
KBC Bank N.V. 245 Peachtree Center Avenue, Suite 2550 Atlanta, Georgia 30303	$ 30,000,000.00	7.50000%
The Royal Bank of Scotland, plc Wall Street Plaza 88 Pine Street, 26th Floor New York, New York 20005-1801	$ 30,000,000.00	7.50000%
Paribas 1200 Smith Street, Suite 3100 Houston, Texas 77002	$ 20,000,000.00	5.00000%
The Dai-Ichi Kangyo Bank, Ltd. One World Trade Center, 48th Floor New York, New York 10048	$ 20,000,000.00	5.00000%
Hau Nan Commercial Bank, Ltd. Two World Trade Center, Suite 2846 New York, New York 10048	$ 20,000,000.00	5.00000%

Landesbank Rhenland-Pfalz, Girozentrale Grosse Bleiche 54-56 Mainz, Germany 55092	$ 20,000,000.00	5.00000%
Abu Dhabi International Bank Inc. 1020 19th Street, Northwest, Suite 500 Washington, DC 20036	$ 10,000,000.00	2.50000%
Chang Hwa Commercial Bank, Ltd. New York Branch One World Trade Center, Suite 3211 New York, New York 10048	$ 10,000,000.00	2.50000%
Gulf International Bank 380 Madison Avenue, 21st Floor New York, New York 10017	$ 10,000,000.00	2.50000%
Local Oklahoma Bank, N.A. 2250 East 73rd Street, Suite 200 Tulsa, Oklahoma 74136	$ 10,000,000.00	2.50000%
National Bank of Kuwait, S.A.K., Grand Cayman Branch 299 Park Avenue, 17th Floor New York, New York 10171	$ 10,000,000.00	2.50000%
The Sumitomo Bank, Limited 277 Park Avenue, 6th Floor New York, New York 10172	$ 10,000,000.00	2.50000%
The Tokai Bank, Limited - New York Branch 55 East 52nd Street, 11th Floor New York, New York 10055	$ 10,000,000.00	2.50000%
Bank Polska Kasa Opieki S.A. 470 Park Avenue South 32nd Street, 15th Floor New York, New York 10016	$ 5,000,000.00	1.25000%
Banque Worms Capital Corp. 450 Park Avenue, Suite 2900 New York, New York 10022-2698	$ 5,000,000.00	1.25000%
Landesbank Saar Girozentrale Ulsulenan Strasse Saabrucken, Germany 266111	$ 5,000,000.00	1.25000%
Totals	$400,000,000.00	100.000%

SCHEDULE 2.2

SCHEDULE 6.1

CONDITIONS PRECEDENT TO CLOSING

The Agreement shall not become effective unless Administrative Agent has received all of the following (unless otherwise indicated, all documents shall be dated as of __________________, and all terms used with their initial letters capitalized are used herein with their meanings as defined in the Agreement):

1. The Agreement. The Agreement (together with all Schedules and Exhibits thereto) executed by the Company, each Lender, the Syndication Agent, the Documentation Agent, and Administrative Agent.

2. Notes. A Term Note in the form of Exhibit A, payable to each requesting Lender.

3. Certificate of Incorporation. A copy of the Certificate of Incorporation of the Company, accompanied by certificates that such copy is correct and complete, one dated a Current Date (as used herein, the term "Current Date" means any date not more than thirty (30) days prior to the Closing Date) issued by the Secretary of State of Delaware, and one dated the Closing Date executed by the Secretary or Assistant Secretary of the Company.

4. Bylaws. A copy of the Bylaws of the Company and all amendments thereto, accompanied by a certificate that such copy is correct and complete, dated the Closing Date and executed by the Secretary or Assistant Secretary of the Company.

5. Good Standing and Authority. Certificates of the Delaware Secretary of State and the Oklahoma Secretary of State, dated a Current Date, to the effect that the Company is in good standing with respect to the payment of franchise and similar Taxes (to the extent such information is available) and is duly qualified to transact business in such jurisdiction.

6. Incumbency. Certificates of incumbency dated as of the Closing Date with respect to all officers and "authorized representatives" of the Company who will be authorized to execute or attest any of the Loan Papers on behalf of the Company, executed by the Secretary or an Assistant Secretary of the Company.

7. Resolutions. Copies of resolutions duly adopted by the Board of Directors of the Company approving this Agreement and the other Loan Papers and authorizing the transactions contemplated in such Loan Papers, accompanied by a certificate of the Secretary or an Assistant Secretary of the Company dated as of the Closing Date certifying that such copy is a true and correct copy of resolutions duly adopted at a meeting of (which may be held by conference telephone or similar communications equipment by means of which all Persons participating in a meeting can hear each other if permitted by applicable Law and, if required by such Law, by its Bylaws), or by the unanimous written consent of (if permitted by applicable Law and, if required by such Law, by its Bylaws), the Board of Directors of the Company, and that such resolutions constitute all the resolutions adopted with respect to such transactions, have not been amended, modified, or revoked in any respect (except as any such resolution may be modified by any such other resolution), and are in full force and effect as of the Closing Date.

8. Certificate Regarding Closing. Certificate executed by the President, Vice President or Treasurer of the Company regarding the absence of any Default or Potential Default as of the Closing Date.

9. Opinion of Counsel to the Company. The opinion of the General Counsel to the Company, addressed to Administrative Agent, Syndication Agent, Documentation Agent, and Lenders, substantially in the form of Exhibit D.

10. Payment of Closing Fees and Expenses. Payment of all fees payable on or prior to the Closing Date to Administrative Agent as provided for in Section 5 of the Agreement, together with reimbursements to Administrative Agent for all reasonable fees and expenses incurred in connection with the negotiation, preparation, and closing of the transactions evidenced by the Loan Papers (including, without limitation, reasonable attorneys' fees and expenses).

11. Notice of Borrowing. A Notice of Borrowing for any initial Borrowing is delivered to Administrative Agent, together with calculations demonstrating compliance with Section 8.6 on the Closing Date after giving effect to the Borrowings made on such date.

12. Current Financials. True and correct copies of the financial statements referred to in Section 7.5 of the Agreement have been delivered to Administrative Agent.

SCHEDULE 6.2

EXHIBIT 23(a)

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the following registration statements on Form S-3 and related prospectuses and in the following registration statements on Form S-8 of The Williams Companies, Inc. of our report dated February 17, 2000, except for the matters described in the fourth and sixth paragraphs of Note 1, Note 11 and Note 22, as to which the date is June 9, 2000, with respect to the consolidated financial statements and schedules of The Williams Companies, Inc. included in this Annual Report (Form 10-K/A) for the year ended December 31, 1999:

Form S-3: Registration No. 333-20929; Registration No. 333-35097; Registration No. 333-29185; Registration No. 333-24683; Registration No. 333-66141; Registration No. 333-20927

Form S-8: Registration No. 33-36770; Registration No. 33-44381; Registration No. 33-40979; Registration No. 33-45550; Registration No. 33-43999; Registration No. 33-51539; Registration No. 33-51543; Registration No. 33-51551; Registration No. 33-51549; Registration No. 33-51547; Registration No. 33-56521; Registration No. 33-58671; Registration No. 333-03957; Registration No. 333-11151; Registration No. 333-40721; Registration No. 333-33735; Registration No. 333-30095; Registration No. 333-48945; Registration No. 333-61597; Registration No. 333-90265; and Registration No. 333-76929.

ERNST & YOUNG LLP

Tulsa, Oklahoma
June 15, 2000

EXHIBIT 23(b)

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the registration statements of The Williams Companies, Inc. shown below of our report dated January 27, 1998 (March 3, 1998, as to Notes 2 and 16 to the MAPCO Inc. consolidated financial statements) with respect to the consolidated financial statements of MAPCO Inc., which report includes explanatory paragraphs relating to certain litigation to which MAPCO Inc. is a defendant and the change in its method of accounting for business process reengineering activities to conform to the consensus reached by the Emerging Issues Task Force in Issue No. 97-13, appearing in this Annual Report of The Williams Companies, Inc. on Form 10-K/A for the year ended December 31, 1999.

Form S-3:	Registration No. 333-20927	Registration No. 333-20929
	Registration No. 333-24683	Registration No. 333-29185
	Registration No. 333-35097	Registration No. 333-66141

Form S-8:	Registration No. 33-36770	Registration No. 33-40979
	Registration No. 33-43999	Registration No. 33-44381
	Registration No. 33-45550	Registration No. 33-51539
	Registration No. 33-51543	
	Registration No. 33-51547	Registration No. 33-51549
	Registration No. 33-51551	Registration No. 33-56521
	Registration No. 33-58671	
	Registration No. 333-03957	Registration No. 333-11151
	Registration No. 333-30095	Registration No. 333-33735
	Registration No. 333-40721	Registration No. 333-48945
	Registration No. 333-61597	Registration No. 333-76929
	Registration No. 333-90265	

Deloitte & Touche LLP
Tulsa, Oklahoma
June 15, 2000

EXHIBIT 24

THE WILLIAMS COMPANIES, INC.

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that each of the undersigned individuals, in their capacity as a director or officer, or both, as hereinafter set forth below their signature, of THE WILLIAMS COMPANIES, INC., a Delaware corporation ("Williams"), does hereby constitute and appoint WILLIAM G. VON GLAHN, SHAWNA L. GEHRES, and LORETTA K. ROBERTS their true and lawful attorneys and each of them (with full power to act without the others) their true and lawful attorneys for them and in their name and in their capacity as a director or officer, or both, of Williams, as hereinafter set forth below their signature, to sign Williams' Annual Report to the Securities and Exchange Commission on Form 10-K for the fiscal year ended December 31, 1999, and any and all amendments thereto or all instruments necessary or incidental in connection therewith; and

THAT the undersigned Williams does hereby constitute and appoint WILLIAM G. VON GLAHN, SHAWNA L. GEHRES, and LORETTA K. ROBERTS its true and lawful attorneys and each of them (with full power to act without the others) its true and lawful attorney for it and in its name and on its behalf to sign said Form 10-K and any and all amendments thereto and any and all instruments necessary or incidental in connection therewith.

Each of said attorneys shall have full power of substitution and resubstitution, and said attorneys or any of them or any substitute appointed by any of them hereunder shall have full power and authority to do and perform in the name and on behalf of each of the undersigned, in any and all capacities, every act whatsoever requisite or necessary to be done in the premises, as fully to all intents and purposes as each of the undersigned might or could do in person, the undersigned hereby ratifying and approving the acts of said attorneys or any of them or of any such substitute pursuant hereto.

IN WITNESS WHEREOF, the undersigned have executed this instrument, all as of the 23rd day of January, 2000.

/s/ Keith E. Bailey	/s/ Jack D. McCarthy
Keith E. Bailey Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	Jack D. McCarthy Senior Vice President (Principal Financial Officer)

/s/ Gary R. Belitz

Gary R. Belitz
Controller
(Principal Accounting Officer)

/s/ Hugh M. Chapman	/s/ Glenn A. Cox
Hugh M. Chapman Director	Glenn A. Cox Director
/s/ Thomas H. Cruikshank	/s/ William E. Green
Thomas H. Cruikshank Director	William E. Green Director
/s/ Patricia L. Higgins	/s/ W.R. Howell
Patricia L. Higgins Director	W.R. Howell Director
/s/ James C. Lewis	/s/ Jack A. MacAllister
James C. Lewis Director	Jack A. MacAllister Director
/s/ Frank T. MacInnis	/s/ Peter C. Meinig
Frank T. MacInnis Director	Peter C. Meinig Director
/s/ Gordon R. Parker	/s/ Janice D. Stoney
Gordon R. Parker Director	Janice D. Stoney Director

/s/ Joseph H. Williams

Joseph H. Williams
Director

THE WILLIAMS COMPANIES, INC.

By /s/ William G. von Glahn

William G. von Glahn
Senior Vice President

ATTEST:

/s/ Shawna L. Gehres
- ------------------------------
Shawna L. Gehres
Secretary

THE WILLIAMS COMPANIES, INC.

I, the undersigned, Shawna L. Gehres, Secretary THE WILLIAMS COMPANIES, INC. a Delaware company (hereinafter called the "Company"), do hereby certify that pursuant to Section 141(f) of the General Corporation Law of Delaware, the Board of Directors of this Corporation unanimously consented, as of January 21, 2000, to the following:

> RESOLVED that the Chairman of the Board, the President or any Vice President of the Company be, and each of them hereby is, authorized and empowered to execute a Power of Attorney for use in connection with the execution and filing, for and on behalf of the Company, under the Securities Exchange Act of 1934, of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.

I further certify that the foregoing resolution has not been modified, revoked or rescinded and is in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the corporate seal of THE WILLIAMS COMPANIES, INC. this 20th day of June, 2000.

/s/ Shawna L. Gehres

Shawna L. Gehres
Secretary

[CORPORATE SEAL]

EXHIBIT 99

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
MAPCO Inc.:

We have audited the consolidated statements of income, changes in stockholders' equity, and cash flows of MAPCO Inc. and subsidiaries for the year ended December 31, 1997 (none of which are presented herein). Our audit also included the financial statement schedules listed at Item 14(a)2 in the MAPCO Inc. 1997 Annual Report on Form 10-K (not presented herein). These financial statements and financial statement schedules 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 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 results of operations of MAPCO Inc. and subsidiaries and their cash flows for the year ended December 31, 1997, in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 16 to the MAPCO Inc. consolidated financial statements, MAPCO Inc. is a defendant in litigation relating to an LPG explosion in April 1992, that occurred near an underground salt dome storage facility located near Brenham, Texas.

Effective October 1, 1997, MAPCO Inc. changed its method of accounting for business process reengineering activities to conform to the consensus reached by the Emerging Issues Task Force in Issue No. 97-13.

Deloitte & Touche LLP
Tulsa, Oklahoma
January 27, 1998
(March 3, 1998, as to Notes 2 and 16
to the MAPCO Inc. consolidated financial statements)