FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)
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	73-0569878
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
ONE WILLIAMS CENTER TULSA, OKLAHOMA	74172
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code:
(918) 588-2000

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 23, 1998, was approximately $10.3 billion.

The number of shares of the registrant's Common Stock outstanding at March 23, 1998, was 323,219,054, excluding 6,541,475 shares held by the Company.

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 the Company for 1998 are incorporated by reference in Part III.

THE WILLIAMS COMPANIES, INC.

FORM 10-K

PART I

ITEM 1. BUSINESS

(a) GENERAL DEVELOPMENT OF BUSINESS

The Williams Companies, Inc. (the "Company" or "Williams") 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 the Company are located at One Williams Center, Tulsa, Oklahoma 74172 (telephone (918) 588-2000). Unless the context otherwise requires, references to the "Company" and "Williams" herein include The Williams Companies, Inc. and its subsidiaries.

On November 24, 1997, the Company announced that it had entered into a definitive merger agreement to acquire MAPCO Inc. ("MAPCO") in a stock-for-stock transaction based upon a fixed exchange ratio of 1.665 shares of the Company's Common Stock and .555 associated preferred stock purchase rights (adjusted to reflect the Company's two-for-one stock split on December 29, 1997) for each share of MAPCO Common Stock and associated preferred stock purchase rights. The Company's and MAPCO's shareholders approved actions necessary to complete the transaction at special stockholder meetings on February 26, 1998. See Note 19 to Notes to Consolidated Financial Statements. The Federal Trade Commission announced on March 27, 1998, that it would allow the parties to consummate the transaction, and the parties closed the transaction on March 28, 1998.

MAPCO is a Tulsa, Oklahoma-based diversified energy company. Subsidiaries of MAPCO engage in the transportation by pipeline of natural gas liquids ("NGLs"), anhydrous ammonia, crude oil, and refined petroleum products; the transportation by truck and rail of NGLs and refined petroleum products; the refining of crude oil; the marketing and trading of NGLs, refined petroleum products, and crude oil; NGL storage; and the marketing of motor fuel and merchandise through convenience store operations. MAPCO's subsidiary, Mid-America Pipeline Company, owns and operates 7,668 miles of pipeline and related pumping, metering, and storage facilities. Subsidiaries of MAPCO also own and operate two petroleum products refineries, one in Alaska, which markets approximately 44,000 barrels of refined products per day in Alaska, Canada, and the Pacific Rim, and one in Tennessee, which markets approximately 110,000 barrels of refined products per day. MAPCO's subsidiary, Thermogas Company, is the fourth largest propane marketer in the United States and sells propane in 18 states to more than 350,000 customers. Its MAPCO Express subsidiaries operate approximately 230 convenience stores and travel centers primarily in Tennessee and Alaska. MAPCO also owns subsidiaries providing fleet operators with motor fuel and data management and providing energy-related information services. MAPCO also holds equity investments in other businesses.

Management believes the acquisition furthers its strategy of seeking growth through strategic acquisitions and alliances and that MAPCO's assets and operations complement the Company's existing lines of business. Following the acquisition, the Company will operate the MAPCO businesses through Williams Energy Group.

On January 5, 1998, the Company's three-year non-compete agreement resulting from the 1995 sale of the network services operations of its telecommunications subsidiary expired, and the Company announced plans to re-enter the long-distance telecommunications market as a provider of wholesale communications services over an 18,000-mile network expected to be in operation by the beginning of 1999.

In April 1997, the Company merged its wholly owned subsidiary, Williams Telecommunications Systems, Inc. with Nortel Communications Systems, Inc., which was a wholly owned subsidiary of Northern Telecom, Inc. The Company holds a 70 percent interest in the newly formed entity, Williams Communications Solutions, LLC. See Note 2 of Notes to Consolidated Financial Statements.

In January 1996, the Company acquired a 49.9 percent interest from its partner in Kern River Gas Transmission Company giving the Company 99.9 percent ownership of this natural gas pipeline system. The purchase price was $206 million. See Note 2 of Notes to Consolidated Financial Statements. The Company acquired the remaining 0.1 percent interest in the partnership in February 1997, for $387,600.

(b) FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

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

(c) NARRATIVE DESCRIPTION OF BUSINESS

The Company, through subsidiaries, engages in the transportation and sale of natural gas and related activities; natural gas gathering, processing, and treating activities; the transportation and terminaling of petroleum products; hydrocarbon exploration and production activities; the production and marketing of ethanol; and energy commodity marketing and trading and provides a variety of other products and services, including price risk management services, to the energy industry. The Company also engages in the communications business. In 1997, the Company's energy subsidiaries owned and operated: (i) five interstate natural gas pipeline systems; (ii) natural gas production properties; (iii) natural gas gathering and processing facilities; (iv) a common carrier petroleum products and crude oil pipeline system; (v) petroleum products terminals; and (vi) ethanol production facilities. The Company's communications subsidiaries offer: (i) data-, voice- and video-related products and services; (ii) advertising distribution services; (iii) video services and other multimedia services for the broadcast industry; (iv) enhanced facsimile and audio- and videoconferencing services for businesses; (v) customer-premise voice and data equipment, including installation, maintenance, and integration; and (vi) network integration and management services nationwide. The Company also has investments in the equity of certain other companies.

Substantially all operations of Williams are conducted through subsidiaries. Williams performs management, legal, financial, tax, consultative, administrative, and other services for its subsidiaries. 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 the Company.

To achieve organizational and operating efficiencies, the Company's interstate natural gas pipelines are grouped together under its wholly owned subsidiary, Williams Interstate Natural Gas Systems, Inc. All other operating companies are owned by Williams Holdings of Delaware, Inc., a wholly-owned subsidiary of the Company. The energy operations of Williams Holdings of Delaware, Inc. are grouped into a wholly-owned subsidiary, Williams Energy Group, and its communications operations are grouped into a wholly-owned subsidiary, Williams Communications Group, Inc. Item 1 of this report is formatted to reflect this structure.

WILLIAMS INTERSTATE NATURAL GAS SYSTEMS, INC.

The Company's interstate natural gas pipeline group, comprised of Williams Interstate Natural Gas Systems, Inc. and its subsidiaries, owns and operates a combined total of approximately 27,000 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 natural gas. The interstate natural 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 pipeline group also holds minority interests in joint venture interstate natural gas pipeline systems. The Company acquired Transcontinental Gas Pipe Line Corporation and Texas Gas Transmission Corporation in 1995. For the accounting treatment of the acquisition, see Note 2 of Notes to Consolidated Financial Statements. As noted above, the Company acquired an additional 49.9 percent interest in Kern River Gas Transmission Company in January 1996 and the remaining 0.1 percent interest in February 1997.

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* The term "Mcf" means thousand cubic feet, "MMcf" means million cubic feet and "Bcf" means billion cubic feet. 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 "Mbbl" means one thousand barrels. The term "GWh" means gigawatt hour.

In 1997, the Company's gas pipeline group began the process of combining 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 effectiveness. In addition, the Company combined the management teams of two of the operating companies, Northwest Pipeline Corporation and Kern River Gas Transmission Company, in 1997. Also in 1997, the senior vice president and general manager of Texas Gas Transmission Corporation assumed additional responsibilities as senior vice president and general manager of Williams Gas Pipelines Central, Inc. The Company made these management changes to increase the organizational efficiency of its natural gas pipeline group; however, each of these operating companies continues to operate as a separate legal entity. The Company's gas pipeline subsidiaries employ approximately 3,600 employees.

The interstate natural 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 ("Natural Gas Act") 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 pipeline holds certificates of public convenience and necessity issued by FERC authorizing ownership and operation of all pipelines, facilities and properties considered jurisdictional for which certificates are required under the Natural Gas Act. Each pipeline 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 gas transmission facilities.

A business description of each company in the interstate natural gas pipeline group follows.

TRANSCONTINENTAL GAS PIPE LINE CORPORATION (TRANSCO)

Transco is an interstate natural gas transmission company that owns a 10,500-mile natural gas pipeline system extending from Texas, Louisiana, Mississippi and the offshore Gulf of Mexico through the states of 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, 1997, Transco's system had a mainline delivery capacity of approximately 3.8 Bcf of gas per day from 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 7,300 miles of mainline and branch transmission pipelines, 39 compressor stations and six storage locations. Compression facilities at a sea level-rated capacity total approximately 1.3 million horsepower.

Transco's major gas transportation customers are public utilities and municipalities that provide service to residential, commercial, industrial and electric generation end users. Shippers on Transco's pipeline system include public utilities, municipalities, intrastate pipelines, direct industrial users, electrical generators, marketers and producers. Transco's largest customer in 1997 accounted for approximately 12 percent of Transco's total operating revenues. No other customer accounted for more than 10 percent of total operating revenues in 1997. 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 services under shorter term agreements.

Transco has natural gas storage capacity in five underground storage fields located on or near its pipeline system and/or market areas and operates three of these storage fields and a liquefied natural gas (LNG) storage facility. The total top gas storage capacity available to Transco and its customers in such storage fields and LNG facility is approximately 216 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 February 1997, Pine Needle LNG Company, LLC, which is owned by Transco and several of its major customers, commenced construction of an LNG storage project in Guilford County, North Carolina. The project will have 4 Bcf of storage capacity and 400 MMcf per day of withdrawal capacity, and is expected to be placed into service on or about May 1, 1999. The project is estimated to cost approximately $107 million. Transco will operate the facility and have a 35 percent ownership interest. Transco expects to make equity investments of approximately $19 million in this project.

In March 1997, Transco announced its MarketLink Expansion Project. MarketLink will expand Transco's Leidy Line and market-area mainline facilities, providing the final transportation link for several pipeline projects designed to transport Canadian and Rocky Mountain gas supplies to eastern markets. The total cost and capacity of the project, which is targeted to be in service for the 1999-2000 winter heating season, will be determined based on market subscriptions. Transco plans to file for FERC approval of the project during the first quarter of 1998.

In March 1997, Independence Pipeline Company filed with FERC an application, which was amended in December 1997, for approval to construct and operate a pipeline consisting of approximately 400 miles of 36-inch diameter pipe from ANR Pipeline Company's existing compressor station at Defiance, Ohio to Transco's facilities at Leidy, Pennsylvania. Independence will provide approximately 916 MMcf per day of firm gas transportation capacity and is expected to be in service in the 1999-2000 time frame. The estimated cost of the project is $678 million, and Transco's equity contributions will be approximately $68 million based on its expected one-third ownership interest in the project.

In April 1997, Transco withdrew its FERC certificate application for the Seaboard Expansion Project and filed an application with the FERC for the Pocono Expansion Project, which was completed and placed into service in November 1997. Pocono added 35 MMcf per day of firm gas transportation capacity on Transco's Leidy Line in Pennsylvania. The cost of the expansion is approximately $10 million.

In August 1997, FERC issued a certificate authorizing Transco to expand its existing Maiden Lateral to Piedmont Natural Gas Company, Inc. in Lincoln and Catawba Counties, North Carolina. The project facilities include approximately 18 miles of 16-inch pipeline loop and an expansion of Transco's existing Lowesville Meter Station. The project was placed into service in November 1997. The cost for the facilities is approximately $13 million.

In November 1997, Transco completed and placed into service the SunBelt Expansion Project. This project added approximately 146 MMcf per day of firm gas transportation capacity to markets in Georgia, South Carolina, and North Carolina. The total cost of the expansion was approximately $85 million, of which $61 million was expended in 1997.

In November 1997, the North Carolina Utilities Commission issued an order approving the Cardinal Pipeline System Project. Wholly owned subsidiaries of Transco and three of its North Carolina customers will own the pipeline, which will involve the acquisition of the existing 37-mile Cardinal pipeline in North Carolina and construction of an approximately 67-mile extension of the pipeline to new interconnections near Clayton County, North Carolina. This project will provide 140 MMcf per day of additional firm gas transportation capacity to North Carolina markets and is expected to be placed into service by the end of 1999. A wholly owned subsidiary of Transco will operate the pipeline and have a 45 percent ownership interest in the project. Transco expects to make equity investments of approximately $22 million in this project, of which approximately $900,000 was invested during 1997.

In December 1997, Transco and AGL Resources Inc. (AGL) formed Cumberland Gas Pipeline Company. Under this project, existing pipeline facilities of Transco and AGL will be expanded northward into Tennessee, establishing a 135-mile pipeline that is expected to provide firm transportation capacity to markets in Georgia and Tennessee by the 2000-2001 winter heating season. The project is expected to be submitted for

FERC approval in the third quarter of 1998. Transco will operate the pipeline facilities and have a 50 percent ownership interest. Transco estimates that the total cost of this project will be up to $115 million, and expects to make equity investments of up to $29 million. To complement the Cumberland project, Transco will offer additional pipeline capacity from the terminus of its existing Mobile Bay Lateral in Choctaw County, Alabama, to its interconnect with Cumberland at Transco's Station 125 in Walton County, Georgia, at a cost of up to $120 million.

In January 1998, the FERC approved the Mobile Bay Lateral Expansion Project, an expansion of Transco's existing 123-mile Mobile Bay Lateral. The project is expected to provide new firm transportation capacity of 350 MMcf of gas per day from the outer continental shelf to Transco's Station 82 and increase capacity on the existing onshore lateral from 520 MMcf of gas per day to 784 MMcf of gas per day. The project is targeted to be placed into service in two phases during 1998 at a cost of approximately $120 million, of which approximately $36 million was invested during 1997.

In January 1998, FERC approved the 1998 Cherokee Expansion Project, an incremental expansion of Transco's pipeline system in its southern market area which will provide approximately 84 MMcf of gas per day of new firm gas transportation capacity on Transco's system by a proposed in-service date of November 1, 1998. The estimated cost for this project is $68 million, of which $9.3 million was invested during 1997.

In January 1998, Transco and Duke Energy Corporation announced plans to form a joint venture to develop a new natural gas pipeline project into New York City. The project, called the Cross Bay Pipeline, will combine Duke's previously announced Excelsior(sm) project with the existing Long Beach delivery facilities on Transco's system into a new integrated delivery pipeline. The project will provide up to 700 MMcf of gas per day on a phased-in basis, with the in-service date of the initial phase being targeted for 1999.

Operating Statistics. The following table summarizes transportation data for the periods indicated, including the portion of 1995 during which the Company did not own Transco (in TBtus):

	1997	1996	1995
System Deliveries (TBtu)			
Market-area deliveries:			
Long-haul transportation	940.2	948.9	858.4
Market-area transportation	438.9	428.1	467.3
Total market-area deliveries	1,379.1	1,377.0	1,325.7
Production-area transportation	186.8	210.0	165.9
Total system deliveries	1,565.9	1,587.0	1,491.6
Average Daily Transportation Volumes	4.3	4.3	4.1
Average Daily Firm Reserved Capacity	5.5	5.2	5.2

NORTHWEST PIPELINE CORPORATION (NORTHWEST PIPELINE)

Northwest Pipeline is an interstate natural gas transmission company that owns and operates a pipeline system for the mainline transmission of natural gas 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, 1997, Northwest Pipeline's system, having an aggregate mainline deliverability of approximately 2.5 Bcf of gas per day, was composed of approximately 3,900 miles of mainline and branch transmission pipelines and 40 mainline compressor stations with a combined capacity of approximately 307,000 horsepower.

In 1997, Northwest Pipeline transported natural gas for a total of 153 customers. Transportation customers include distribution companies, municipalities, interstate and intrastate pipelines, gas marketers and direct industrial users. The five largest customers of Northwest Pipeline in 1997 accounted for approximately 17 percent, 16.9 percent, 11.8 percent, 10.6 percent and 10.4 percent, respectively, of its total operating revenues. No other customer accounted for more than 10 percent of total operating revenues. 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 agreements that are generally short term.

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 liquefied natural gas storage facility in Washington that provides a needle-peaking service for the system. These storage facilities have an aggregate delivery capacity of approximately 973 MMcf of gas per day.

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

	1997	1996	1995
Transportation Volumes	714	834	826
Average Daily Transportation Volumes	2.0	2.3	2.3
Average Daily Firm Reserved Capacity	2.5	2.5	2.4

Transportation volumes declined from 1996 to 1997 as a result of Northwest Pipeline's sale in late 1996 of a majority of its South End Facilities.

KERN RIVER GAS TRANSMISSION COMPANY (KERN RIVER)

Kern River is an interstate natural gas transmission company that owns and operates a natural gas pipeline system extending from Wyoming through Utah and Nevada to California. Kern River had been jointly owned and operated by Williams Western Pipeline Company, a subsidiary of the Company, and a subsidiary of an unaffiliated company. As previously indicated, the Company acquired an additional 49.9 percent interest in Kern River in January 1996. See Note 2 of Notes to Consolidated Financial Statements. In February 1997, the Company acquired the remaining 0.1 percent interest in Kern River. The transmission system, which commenced operations in February 1992 following completion of construction, delivers natural gas primarily to the enhanced oil recovery fields in southern California. The system also transports natural gas for utilities, municipalities and industries in California, Nevada and Utah.

Pipeline System and Customers

As of December 31, 1997, Kern River's pipeline system was composed of approximately 705 miles of mainline and branch transmission pipelines and five compressor stations having an aggregate mainline delivery capacity of 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 capacity of 1.1 Bcf of gas per day.

Kern River transports gas for others under firm long-term transportation contracts totaling 694 MMcf of gas per day. In 1997, Kern River transported natural gas for customers in California, Nevada, and Utah. Gas was transported for reinjection as a part of enhanced oil recovery in Kern County, California, and for local distribution customers, electric utilities, cogeneration projects, and commercial and other industrial customers. The four largest customers of Kern River in 1997 accounted for approximately 16 percent, 14 percent, 12 percent, and 10 percent, respectively, of its total operating revenues. Three of these customers serve the enhanced oil recovery fields. No other customer accounted for more than 10 percent of total operating revenues in 1997.

Kern River has executed a seasonal firm transportation contract to deliver natural gas into the Las Vegas, Nevada, market area during the winter months. Kern River began deliveries of approximately 10 MMcf of gas per day during 1997 and expects to escalate such deliveries to 40 MMcf of gas per day on a seasonal basis by 1999.

Operating Statistics. The following table summarizes transportation data for the periods indicated, including periods during which the Company owned less than 100 percent of Kern River (in TBtus):

	1997	1996	1995
Transportation Volumes	285	281	286
Average Daily Transportation Volumes	.78	.77	.78
Average Daily Firm Reserved Capacity	.73	.71	.72

TEXAS GAS TRANSMISSION CORPORATION (TXG)

TXG is an interstate natural gas transmission company that owns and operates a natural gas pipeline system originating in the Louisiana Gulf Coast area and in east Texas and running generally north and east through Louisiana, Arkansas, Mississippi, Tennessee, Kentucky, Indiana and into Ohio, with smaller diameter lines extending into Illinois. TXG'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. TXG also has indirect market access to the Northeast through interconnections with unaffiliated pipelines.

Pipeline System and Customers

At December 31, 1997, TXG's system, having a mainline delivery capacity of approximately 2.8 Bcf of gas per day, was composed of approximately 6,000 miles of mainline and branch transmission pipelines and 32 compressor stations having a sea level-rated capacity totaling approximately 549,000 horsepower.

In 1997, TXG transported gas to customers in Louisiana, Arkansas, Mississippi, Tennessee, Kentucky, Indiana, Illinois, and Ohio and to customers in the Northeast served indirectly by TXG. TXG transported gas for 110 distribution companies and municipalities for resale to residential, commercial and industrial users. TXG provided transportation services to approximately 20 industrial customers located along the system. At December 31, 1997, TXG had transportation contracts with approximately 588 shippers. Transportation shippers include distribution companies, municipalities, intrastate pipelines, direct industrial users, electrical generators, marketers and producers. The largest customer of TXG in 1997 accounted for approximately 12.4 percent of its total operating revenues. No other customer accounted for more than 10 percent of total operating revenues during 1997. TXG's firm transportation and storage agreements are generally long-term agreements with various expiration dates and account for the major portion of TXG's business. Additionally, TXG offers interruptible transportation and storage services under agreements that are generally short-term.

TXG owns and operates natural gas storage reservoirs in 10 underground storage fields located on or near its pipeline system and/or market areas. The storage capacity of TXG's certificated storage fields is approximately 177 Bcf of gas. TXG's storage gas is used in part to meet operational balancing needs on its system, in part to meet the requirements of TXG's firm and interruptible storage customers, and in part to meet the requirements of TXG's "no-notice" transportation service, which allows TXG's customers to temporarily draw from TXG's storage gas to be repaid in-kind during the following summer season. A large portion of the gas delivered by TXG to its market area is used for space heating, resulting in substantially higher daily requirements during winter months.

Operating Statistics. The following table summarizes total system transportation volumes for the periods indicated, including the portion of 1995 during which the Company did not own TXG (in TBtus):

	1997	1996	1995
Transportation Volumes	773.6	794.5	693.3
Average Daily Transportation Volumes	2.1	2.2	1.9
Average Daily Firm Reserved Capacity	2.2	2.1	2.0

WILLIAMS GAS PIPELINES CENTRAL, INC. (CENTRAL)

Central, formerly known as Williams Natural Gas Company, is an interstate natural gas transmission 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 of Kansas and Missouri, its chief market areas.

Pipeline System and Customers

At December 31, 1997, Central's system, having a mainline delivery capacity of approximately 2.2 Bcf of gas per day, was composed of approximately 6,000 miles of mainline and branch transmission and storage pipelines and 42 compressor stations having a sea level-rated capacity totaling approximately 218,000 horsepower.

In 1997, Central transported gas to customers in Colorado, Kansas, Missouri, Nebraska, Oklahoma, Texas, and Wyoming. Gas was transported for 70 distribution companies and municipalities for resale to residential, commercial and industrial users in approximately 530 cities and towns. Transportation services were provided to approximately 303 industrial customers, federal and state institutions and agricultural processing plants located principally in Kansas, Missouri and Oklahoma. At December 31, 1997, Central had transportation contracts with approximately 201 shippers. Transportation shippers included distribution companies, municipalities, intrastate pipelines, direct industrial users, electrical generators, marketers and producers.

In 1997, approximately 68 percent (approximately 34 percent each) of total operating revenues were generated from gas transportation services to Central's two largest customers, Kansas Gas Service Company, a division of Oneok, Inc., formerly Western Resources, Inc., and Missouri Gas Energy Company. 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 10 percent of operating revenues during 1997.

In 1997, Central reached agreement with its two major customers to renew a major portion of their firm capacity that was to expire under then-existing contracts. The majority of the new contracts have terms ranging from four to five years. Central's remaining firm transportation agreements have various expiration dates ranging from one year to twenty years, with the majority expiring in three to eight years. Additionally, Central offers interruptible transportation services under agreements that are generally short term.

Central operates nine underground storage fields with an aggregate working 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 in 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 the system to operate more uniformly and efficiently during the year.

During 1997, Central completed four expansion projects which resulted in additional firm transportation contracts totaling over 71,000 Dth per day.

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

	1997	1996	1995
Transportation Volumes	337	341	334
Average Daily Transportation Volumes	.9	.9	.9
Average Daily Firm Reserved Capacity	2.1	1.9	2.0

REGULATORY MATTERS

In 1992, FERC issued Order 636, which required interstate pipeline companies to restructure their tariffs to eliminate traditional on-system sales services. In addition, the Order required implementation of various changes in forms of service, including unbundling of gathering, transmission and storage services; terms and conditions of service; rate design; gas supply realignment cost recovery; and other major rate and tariff revisions. Kern River implemented its restructuring on August 1, 1993; Central implemented its restructuring on October 1, 1993; and Transco, Northwest Pipeline and TXG implemented their restructurings on November 1, 1993. Certain aspects of three pipeline companies' Order 636 restructurings are under appeal.

Each interstate natural gas pipeline has various regulatory proceedings pending. Rates are established primarily through FERC's ratemaking process. Key determinants in the ratemaking process are (1) costs of providing service, including depreciation rates, (2) allowed rate of return, including the equity component of the capital structure, and (3) volume throughput assumptions. 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 such proceedings, the pipeline companies have collected a portion of their revenues subject to refund. See Note 13 of Notes to Consolidated Financial Statements for the amount of revenues reserved for potential refund as of December 31, 1997.

Each of the interstate natural gas pipeline companies that were formerly gas supply merchants has undertaken the reformation of its respective gas supply contracts. None of the pipelines have any significant pending supplier take-or-pay, ratable-take or minimum-take claims. Central has an accrued liability recorded of $94 million for its estimated remaining contract reformation and gas supply realignment costs under Order 636. These contracts are presently subject to certain FERC proceedings. For information on outstanding issues with respect to contract reformation, gas purchase deficiencies and related regulatory issues, see Note 18 of Notes to Consolidated Financial Statements.

COMPETITION

FERC continues to regulate each of the Company's 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. FERC's stated purpose for implementing Order 636 was to improve the competitive structure of the natural gas pipeline industry. 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 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 grid arrangements among electric utilities also compete with gas-fired power generation in certain markets.

As mentioned, when restructured tariffs became effective under Order 636, all suppliers of natural gas were able to compete for any gas markets capable of being served by the pipelines using nondiscriminatory transportation services provided by the pipelines. As the Order 636 regulated environment has matured, many pipelines 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 pipelines 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 charge rates approved by FERC on a cost of service basis.

The Company is aware that several state jurisdictions have been involved in implementing changes similar to the changes that have occurred at the federal level under Order 636. Such activity, frequently referred to as "LDC unbundling," has been most pronounced in the states of New York, New Jersey, Georgia, and Pennsylvania. New York and New Jersey began establishing LDC unbundling regulations in 1995 and continue to develop regulations regarding LDC unbundling. Georgia enacted an LDC unbundling program in 1997. Pennsylvania is currently considering LDC unbundling and may enact such legislation in 1998. In addition, Maryland and Delaware currently have pilot unbundling programs for industrial, commercial, and residential end-users. Management expects these regulations to encourage greater competition in the natural gas marketplace.

OWNERSHIP OF PROPERTY

Each of the Company's interstate natural gas pipeline subsidiaries generally owns its facilities in fee. However, a substantial portion of each pipeline'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, FERC would grant the requisite rate relief so that, for the most part, the pipeline subsidiaries could recover such expenditures in their rates. For this reason, management believes that compliance with applicable environmental requirements by the interstate pipelines is not likely to have a material effect upon the Company's 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 18 of Notes to Consolidated Financial Statements.

WILLIAMS HOLDINGS OF DELAWARE, INC. (WILLIAMS HOLDINGS)

Williams Holdings' energy subsidiaries are engaged in exploration and production; natural gas gathering, processing and treating activities; petroleum products transportation and terminaling; ethanol production and marketing; and energy commodity marketing and trading and price risk management and energy finance services. In addition, these subsidiaries provide a variety of other products and services to the energy industry. Williams Holdings' communications subsidiaries offer data-, voice-, and video-related products and services and customer premise voice and data equipment, including installation, maintenance, and integration, nationwide. Williams Holdings also has certain other equity investments.

WILLIAMS ENERGY GROUP (WILLIAMS ENERGY)

In 1996, Williams Holdings reorganized its energy operations under a newly created, wholly owned subsidiary, Williams Energy Group, and began reporting such operations for financial reporting purposes on this basis in the fourth quarter of 1996.

Williams Energy is comprised of four major business units: Exploration and Production, Field Services, Petroleum Services, and Energy Marketing and Trading. Through its business units, Williams Energy engages in energy production and exploration activities; natural gas gathering, processing, and treating; petroleum liquids transportation and terminal services; ethanol production; and energy commodity marketing and trading.

Williams Energy, through its subsidiaries, owns 600 Bcf of proved natural gas reserves located primarily in the San Juan Basin of Colorado and New Mexico and owns or operates approximately 11,000 miles of gathering pipelines (including certain gathering lines owned by an affiliate but operated by Field Services), 10 gas treating plants, 10 gas processing plants, 53 petroleum products terminals, and approximately 9,100 miles of liquids pipeline. Physical and notional volumes marketed and traded by Williams Energy's Energy Marketing and Trading unit approximated 11,018 TBtu equivalents in 1997. In support of its power marketing activities, Williams Energy acquired a cogeneration plant in Hazleton, Pennsylvania, in 1997 and also owns a cogeneration plant in northwestern New Mexico. These facilities add approximately 113 megawatts of capacity to its portfolio. Williams Energy, through its subsidiaries, employs approximately 2,800 employees.

Revenues and operating profit for Williams Energy by business unit are reported in Note 4 of Notes to Consolidated Financial Statements herein.

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

EXPLORATION AND PRODUCTION

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

Oil and gas properties. Exploration and production properties are located primarily in the Rocky Mountains and Gulf Coast areas. Rocky Mountain properties are located in the San Juan Basin in New Mexico and Colorado, in Wyoming, and in Utah. Gulf Coast properties include North Louisiana, the Houma Embayment and Transition Zone in Southern Louisiana, Pinnacle Reef play in East Texas, Sligo and Wilcox trends in South Texas, and offshore Gulf of Mexico.

Gas Reserves. As of December 31, 1997, 1996, and 1995, Williams Production had proved developed natural gas reserves of 362 Bcf, 323 Bcf, and 292 Bcf, respectively, and proved undeveloped reserves of 238 Bcf, 208 Bcf, and 222 Bcf, respectively. Of Williams Production's total proved reserves, 89 percent are located in the San Juan Basin of Colorado and New Mexico. No major discovery or other favorable or adverse event has caused a significant change in estimated gas reserves since year end.

Customers and Operations. As of December 31, 1997, the gross and net developed leasehold acres owned by Williams Production totaled 268,331 and 115,728 respectively, and the gross and net undeveloped acres owned were 447,458 and 121,351 respectively. As of such date, Williams Production owned interests in 3,113 gross producing wells (558 net) on its leasehold lands. The following tables summarize drilling activity for the periods indicated:

1997 WELLS	GROSS	NET
Development		
Drilled	198	32.6
Completed	198	32.6
Exploration		
Drilled	12	4.6
Completed	9	2.8

COMPLETED DURING	GROSS WELLS	NET WELLS
1997	207	35
1996	65	11
1995	61	22

The majority of Williams Production's gas production is currently being sold in the spot market at market prices. Total net production sold during 1997, 1996, and 1995 was 37.1 Bcf, 31.0 Bcf, and 30.0 Bcf, respectively. The average production costs, including production taxes, per Mcf of gas produced were $.42, $.23, and $.23, in 1997, 1996, and 1995, respectively. The average wellhead sales price per Mcf was $1.62, $.98, and $.88, respectively, for the same periods. Net production sold and average production costs for 1996 and 1995 have been restated to include net profits volumes not previously reported.

In 1993, Williams Production 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 Holdings 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 Williams Production's interest in such Units.

FIELD SERVICES

Williams Energy, through Williams Field Services Group, Inc. and its subsidiaries (Field Services), owns and operates natural gas gathering, processing, and treating facilities located in northwestern New Mexico, southwestern Colorado, southwestern Wyoming, northwestern Oklahoma, southwestern Kansas, and also in areas offshore and onshore in Texas and Louisiana. Field Services also operates gathering facilities that are owned by Transco, an affiliated company, and that are currently regulated by the FERC. In February 1996, Field Services and Transco filed applications with FERC to spindown all of Transco's gathering facilities to Field Services. FERC subsequently denied the request in September 1996. Field Services and Transco sought rehearing in October 1996. In August 1997, Field Services and Transco filed a second request for expedited treatment of the rehearing request. FERC has yet to rule on this request for rehearing.

Expansion Projects. Field Services continued to expand its operations in the gulf coast region during 1997 primarily through the Mobile Bay Project. During the year, Field Services obtained a life-of-reserves commitment from SOCO Offshore to anchor the construction of the Field Services' facilities required to gather and process near the Outer Continental Shelf. These committed reserves along with existing production from the Mobile Bay area will more than adequately supply this plant, scheduled to begin operations in early 1999. In addition, Field Services has acquired the remaining 50 percent interest in the 500 MMcfd Cameron Meadows processing plant in south Texas, has reached an agreement to partner in a 200 MMcfd processing plant in Louisiana, and finalized construction plans for a deep water gathering line to Green Canyon Federal Block 205 off Transco's Southeast Louisiana gathering system where planned capacity is expected to reach 90 MMcfd in the fourth quarter of 1998.

Customers and Operations. Facilities owned and/or operated by Field Services consist of approximately 11,000 miles of gathering pipelines (including certain gathering lines owned by an affiliate but operated by Field Services), 10 gas treating plants and 10 gas processing plants (one of which is partially owned). The aggregate daily inlet capacity is approximately 7.9 Bcf for the gathering systems and 6.7 Bcf of gas for the gas processing, treating, and dehydration facilities. Gathering and processing customers have direct access to interstate pipelines, including affiliated pipelines, which provide access to multiple markets.

During 1997, Field Services gathered natural gas for 296 customers. The largest gathering customer accounted for approximately 17 percent of total gathered volumes. During 1997, Field Services processed natural gas for a total of 130 customers. The largest customer accounted for approximately 24 percent of total processed volumes. No other customer accounted for more than 10 percent of gathered or processed volumes. Field Services' 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 Field Services.

Operating Statistics. The following table summarizes gathering, processing, and natural gas liquid sales volumes for the periods indicated. The information includes operations attributed to facilities owned by affiliated entities but operated by Field Services, including the portion of 1995 during which the Company did not own such facilities:

	1997	1996	1995
Gas volumes (TBtu, except liquids sales):			
Gathering	2,153	2,155	1,806
Processing	520	484	406
Natural gas liquid sales (millions of gallons)	551	403	284

PETROLEUM SERVICES

Williams Energy, through wholly owned subsidiaries in its Petroleum Services unit, owns and operates a petroleum products and crude oil pipeline system, two ethanol production plants (one of which is partially owned), and petroleum products terminals and provides services and markets products related thereto.

Transportation. A subsidiary in the Petroleum Services unit, Williams Pipe Line Company (Williams Pipe Line), owns and operates a petroleum products and crude oil pipeline system which covers an 11-state area extending from Oklahoma in the south to North Dakota and Minnesota in the north and Illinois in the east. The system is operated as a common carrier offering transportation and terminaling services on a nondiscriminatory basis under published tariffs. The system transports refined products, LP-gases, lube extracted fuel oil, and crude oil.

At December 31, 1997, the system traversed approximately 7,100 miles of right-of-way and included approximately 9,100 miles of pipeline in various sizes up to 16 inches in diameter. The system includes 77 pumping stations, 23 million barrels of storage capacity, and 40 delivery terminals. The terminals are equipped to deliver refined products into tank trucks and tank cars. The maximum number of barrels which 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.

An affiliate of Williams Pipe Line, Longhorn Enterprises of Texas, Inc. ("LETI"), owns a 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. The pipeline is expected to commence operations in 1998. Williams Pipe Line will design, construct, and operate the pipeline, and LETI has irrevocably committed to contribute $87.4 million to the joint venture in 1998.

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

	1997	1996	1995
Shipments (thousands of barrels):			
Refined products:			
Gasolines	132,428	134,296	125,060
Distillates	71,694	68,628	61,238
Aviation fuels	10,557	11,189	12,535
LP-Gases	13,322	15,618	12,839
Lube extracted fuel oil	7,471	8,555	4,462
Crude oil	31	891	860
Total Shipments	235,503	239,177	216,994
Daily average (thousands of barrels)	645	655	595
Average haul (miles)	259	259	269
Barrel miles (millions)	61,086	61,969	58,326

Environmental regulations and changing crude 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 ("EPA") 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.

Ethanol. Williams Energy, through its wholly owned subsidiary Williams Energy Ventures, Inc. (WEV), is engaged in the production and marketing of ethanol. WEV owns and operates two ethanol plants of which corn is the principal feedstock. The Pekin, Illinois, plant, which WEV purchased in 1995, has an annual production capacity of 100 million gallons of fuel-grade and industrial ethanol and also produces various coproducts. The Aurora, Nebraska, plant (in which WEV owns a 74.68 percent interest) began operations in November 1995 and has an annual production capacity of 30 million gallons. WEV also markets ethanol produced by third parties.

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

	1997	1996	1995
Ethanol sold (thousands of gallons)....................	145,612	119,800	53,500
Coproducts sold (thousands of tons)....................	494	398	159

Terminals and Services. Williams Energy, through its subsidiary WEV, operates petroleum products terminals in the western and southeastern United States and provides services including performance additives and ethanol blending. In September 1996, WEV acquired a 45.5 percent interest in eight petroleum products terminals located in the southeast United States. In 1997, these terminals loaded approximately 17.3 million barrels of refined products. In December 1997, WEV acquired a terminal in Dallas, Texas. The preceding volume data do not reflect activity at this terminal.

ENERGY MARKETING AND TRADING

Williams Energy, through subsidiaries, primarily Williams Energy Services Company and its subsidiaries ("WESCO"), 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, and liquefied natural gas, on a wholesale and retail level, serving over 3,500 companies. In addition, WESCO offers a comprehensive array of price-risk management products and services and capital services to the diverse energy industry.

WESCO markets natural gas throughout North America and grew its total volumes (physical and notional) to an average of 22.3 Bcf per day in 1997. The core of WESCO's business has traditionally been the Gulf Coast and eastern regions, using the pipeline systems owned by the Company, but also includes marketing on approximately 50 non-Williams' pipelines. During 1997, approximately one-third of WESCO's volumes were from the Mid-Continent region, up from 10 percent in 1996. WESCO's natural gas customers include producers, industrials, local distribution companies, utilities, and other marketers.

During 1997, WESCO also marketed refined products, natural gas liquids, crude, and liquefied natural gas with total volumes (physical and notional) averaging 1,208.2 Mbbl per day. WESCO's acquisition in 1997 of the wholesale propane business of Level Energy significantly enhanced its natural gas liquids marketing effort.

WESCO entered the power marketing and trading business in 1996. During 1997, WESCO marketed 8.3 GWh per hour (physical and notional) of electricity.

WESCO provides price-risk management services through a variety of financial instruments including forwards, futures, and option and swap agreements related to various energy commodities. Through its energy capital services, WESCO provides participants in both the upstream and downstream portions of the energy industry with capital for energy-related projects including acquisitions of proved reserves and related drilling projects.

During 1997, WESCO has continued to develop its retail energy services group through acquisitions and alliances. As part of that strategy, WESCO acquired Utility Management Corporation, an energy management services and marketing company in the southeastern United States, serving small- to mid-sized commercial, industrial, and municipal customers. WESCO also has signed a letter of intent with GPU Advanced Resources to form an alliance which will serve markets in six mid-Atlantic states.

Operating Statistics. The following table summarizes operating profit and marketing volumes for the periods indicated:

	1997	1996	1995
Average marketing volumes (physical and notional):			
Natural gas (Bcfd)....................................	22.3	15.9	10.2
Refined products, natural gas liquids, crude (MBpd).....	1,208	384	19
Electricity (GWh/hr)..................................	8.3	0.5	--

REGULATORY MATTERS

Field Services. In May 1994, after reviewing its legal authority in a Public Comment Proceeding, 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 FERC's determination and the U.S. Supreme Court has denied requests for certiorari. As a result of these FERC decisions, some of the individual states in which Field Services 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.

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 FERC, to keep its records and accounts pursuant to the Uniform System of Accounts for Oil Pipeline Companies, to make annual reports to FERC and to submit to examination of its records by the audit staff of FERC. Authority to regulate rates, shipping rules, and other practices and to prescribe depreciation rates for common carrier pipelines is exercised by 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, effectively freezing Williams Pipe Line's rates for the previous five years, expired. Williams Pipe Line filed a revised tariff on January 16, 1990, with 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 FERC alleging that the revised rates are not just and reasonable and are unlawfully discriminatory. Williams Pipe Line elected to bifurcate this proceeding in accordance with the then-current FERC policy. Phase I of FERC's bifurcated proceeding provides a carrier the opportunity to justify its rates and rate structure by demonstrating that its markets are workably competitive. Any issues unresolved in Phase I require cost justification in Phase II.

FERC's Presiding Judge issued the Initial Decision in Phase II on May 29, 1996. The Judge ruled 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. The Initial Decision held that Williams Pipe Line's individual rates must be judged on the basis of cost allocations, although Williams Pipe Line was given no notice of this particular basis of judgment and the Commission expressly declined to adopt such standards in its Opinion No. 391. Moreover, the Commission clarified its final order in Phase I (Opinion No. 391-A) by stating that Williams Pipe Line was not required to defend its rates with cost allocations. Primarily on this basis, Williams Pipe Line sought a review of the Initial Decision by the full Commission by filing a brief on exceptions on June 28, 1996. The review of the Phase II Initial Decision is pending before the Commission, and a shipper's appeal of the Phase I order in the United States Court of Appeals for the District of Columbia Circuit has been stayed pending the completion of Phase II. Williams Pipe Line is not required to comply with the Initial Decision in Phase II prior to the Commission's issuance of a final order. Williams Pipe Line continues to believe that its revised tariffs will ultimately be found lawful. See Note 18 of Notes to Consolidated Financial Statements.

Energy Marketing and Trading. Management believes that WESCO'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. WESCO has taken steps to ensure it does not share employees with affiliated interstate natural gas pipelines and does not receive information from such affiliates that is not also available to unaffiliated natural gas trading companies.

COMPETITION

Exploration and Production. Williams Energy's exploration and production unit competes with a wide variety of independent producers as well as integrated oil and gas companies for markets for its production.

Field Services. 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.

Petroleum Services. Williams Energy's petroleum services operations are subject to competition because 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. Such 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 such 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 Energy's ethanol operations compete in local, regional, and national fuel additive markets with one large ethanol producer, numerous smaller ethanol producers, and other fuel additive producers, such as refineries.

Energy Marketing and Trading. Williams Energy's energy marketing and trading operations directly compete with large independent energy marketers, marketing affiliates of regulated pipelines and utilities, electric wholesalers and retailers, 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 are owned in fee. Gathering systems are constructed and maintained 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's petroleum pipeline system is owned 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. Management believes that the system is in such a condition and maintained in such a manner that it is 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, and 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 such existing environmental legal requirements will not have a material adverse effect on the capital expenditures, earnings, and competitive position of Williams Energy.

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 has submitted a report of results to the EPA. Management believes no significant additional expenditures will be required for investigation and follow-up at this site.

WILLIAMS COMMUNICATIONS GROUP, INC. (WILLIAMS COMMUNICATIONS)

As of December 31, 1997, Williams Communications has organized its operating companies into three business units: Solutions, which provides customer-premise voice and data equipment, including installation, integration, and maintenance; Network, which operates the Company's fiber optic network; and Applications, which provides video services and other multimedia services for the broadcast industry; advertising distribution; business television applications; and audio- and videoconferencing services and enhanced facsimile services for businesses. Management believes that the new structure will better position it to provide total enterprise network solutions and superior customer service. In addition, management believes this structure will facilitate growth and diversification while recognizing the convergence of customers, markets and product offerings of its communications entities. In Canada, Solutions operates through its subsidiary, WilTel Communications (Canada), Inc. In late 1997, Williams Communications announced plans to sell its product and content training services business, Williams Learning Network, Inc. See Note 6 of Notes to Consolidated Financial Statements.

Williams Communications and its subsidiaries own an approximately 11,000-mile communications network (with an additional 21,000-route miles planned or under construction), maintain 155 offices primarily across North America but also in London, Singapore, and Australia, service approximately 133,000 customer sites with approximately 11 million customer ports. In addition, Williams Communications owns or manages five teleports in the United States and has rights to capacity on domestic and international satellite transponders. Williams Communications employed approximately 8,000 employees as of December 31, 1997.

Consolidated revenues by business unit and operating profit/loss for Williams Communications were as follows for 1997 (dollars in millions):

Revenues:	
Solutions	$1,206.5
Network	43.0
Application	222.4
Eliminations	(26.6)
Total	$1,445.3
Operating loss	$ (55.7)

The revenues for the Solutions business unit include only eight months of revenues resulting from the merger, which is discussed below, with Nortel Communications Systems, Inc., effective April 30, 1997. The operating loss includes $49.8 million in fourth quarter charges related to the previously noted decision to sell the learning content business and the write-down of assets and the development costs associated with certain advanced applications.

A business description of each of Williams Communications' business units follows.

SOLUTIONS

The Solutions unit of Williams Communications provides data, voice and video communications products and services to customers in the United States and Canada. In April 1997, Williams Communications merged its wholly owned subsidiary, Williams Telecommunications Systems, Inc. with Nortel Communications Systems Inc., which was a wholly owned subsidiary of Northern Telecom, Inc. (Northern Telecom). Williams Communications holds a 70 percent interest in the newly formed entity, Williams Communications Solutions, LLC (WCS). Northern Telecom owns the remaining 30 percent. This merger effectively doubled the size of Williams Communications Solutions Customer premise and network solutions operations.

Williams Communications, through subsidiaries including WCS, serves its customers through more than 120 sales and service locations throughout the United States, over 6,000 employees and over 2,200 stocked service vehicles. WCS employs more than 2,500 technicians and more than 700 sales representatives and sales support personnel to serve an estimated 133,000 commercial, governmental and institutional customer sites. WCS's customer base ranges from large, publicly-held corporations and the federal government to small privately-owned entities.

WCS offers its customers a full array of data, multimedia, voice and video network interconnect products including digital key systems (generally designed for voice applications with fewer than 100 lines), private branch exchange (PBX) systems (generally designed for voice applications with greater than 100 lines), voice processing systems, interactive voice response systems, automatic call distribution applications, call accounting systems, network monitoring and management systems, desktop video, routers, channel banks, intelligent hubs and cabling. WCS's services also include the design, configuration and installation of voice and data networks and call centers and the management of customers' telecommunications operations and facilities. WCS's National Technical Resource Center provides customers with on-line order entry and trouble reporting services, advanced technical assistance and training. Other service capabilities include Local Area Network and PBX remote monitoring and toll fraud detection.

Operating Statistics. The following table summarizes the results of operations for Williams Communications Solutions for the periods indicated (dollars and ports in millions):

	1997	1996	1995
Revenues	$1,206.5	$568.1	$494.9
Percentage of revenues by type of service:			
New system sales	52%	40%	34%
System modifications	28	34	36
Maintenance	19	24	25
Other	1	2	2
Backlog	$ 202.5	$112.2	$ 85.0
Total ports	11.0	5.1	4.7

A port is defined as an electronic address resident in a customer's PBX or key system that supports a station, trunk, or data port.

In 1997, WCS derived approximately 47.8 percent of its revenues from its existing customer base and approximately 52.2 percent from the sale of new telecommunications systems. WCS's three largest suppliers accounted for approximately 86 percent of equipment sold in 1997. A single manufacturer, Northern Telecom, supplied 73 percent of all equipment sold. In this case, WCS is the largest independent distributor in the United States of certain of this company's products. About 63 percent of WCS's active customer base consists of this manufacturer's products. The distribution agreement with this supplier is scheduled to expire at the end of 2000. Management believes there is minimal risk as to the availability of products from suppliers.

NETWORK

The Network unit of Williams Communications owns and operates an approximately 11,000-route mile communications network, which is restricted to multi-media applications, and is currently constructing an unrestricted network along a 1,600 mile route from Houston to Washington, D.C. in proximity to pipeline right-of-way owned by an affiliated company. Williams Communications Inc., a subsidiary of Williams Communications, has entered into an exchange agreement with IXC Communications under which it will provide IXC Communications rights to use dark fiber along the Houston-to-Washington, D.C. route and obtain rights to use dark fiber along a 4,500-mile route from Los Angeles to New York, which IXC Communications is constructing. In addition, Williams Communications, Inc. also owns an interest in a joint venture constructing a 1,600-mile fiber optic network on a route connecting Portland, Salt Lake City, and Las Vegas, with a dark fiber agreement extending the network to Los Angeles. With these construction projects and dark fiber agreements and other projects, Williams Communications, Inc. anticipates having an 18,000-route mile fiber optic network in operation by the end of 1998. Williams Communications, Inc. has also signed an agreement to acquire a 350-mile fiber network in Florida and plans to construct additional fiber to connect the Florida network to its existing network in the southeastern United States, and to construct a new fiber route in the Midwestern United States from Chicago westward. The Network unit has ultimate plans for a 32,000-route mile network.

Upon the expiration of the non-compete agreement related to the Company's 1995 sale of its network services operations on January 5, 1998, Williams Communications announced that it was re-entering the long-distance communications market as a wholesale provider of telecommunications services and had entered into a five-year, multimillion dollar agreement with U S WEST Communications Group to provide wholesale services using its fiber optic network. Williams Communications has also entered into an agreement with Concentric Network Corporation to provide wholesale communications services.

During 1997, Williams Communications acquired Critical Technologies, Inc., a professional services company deriving revenue from integrating, designing, building, implementing, and maintaining large-scale business communications systems. In addition, Williams Communications acquired a 12.5 percent interest in Concentric Network Corporation, a provider of Internet protocol-based networking services for business and consumer markets.

APPLICATIONS

Vyvx

Vyvx, an unincorporated business unit of Williams Communications, Inc., offers broadcast-quality television and multimedia transmission services nationwide by means of Network's 11,000-mile multimedia network, five satellite uplink/downlink facilities and satellite capacity on 30 transponders. Vyvx owns 53 television switching centers, 20 sales and service locations in the United States, and sales and service offices in London, Singapore, and Australia. Vyvx primarily provides backhaul or point-to-point transmission of sports, news and other programming between two or more customer locations. With satellite facilities, Vyvx provides point-to-multipoint transmission service. Vyvx's customers include all of the major broadcast and cable networks. Vyvx is also engaged in the business of advertising distribution and is exploring other multimedia communication opportunities.

Vyvx owns four teleports (including satellite earth station facilities) located near Atlanta, Denver, Los Angeles, and New York, and operates a fifth teleport in Kansas City. Vyvx also owns assets for the distribution of television advertising, which provide connectivity and presence in more than 550 television broadcast stations around the country.

Global Access

Global Access, offers multi-point videoconferencing, audioconferencing and enhanced facsimile services as well as single point to multi-point business television services. Global Access enables Williams Communications to provide customers with integrated media conferences, bringing together voice, video and facsimile by utilizing Williams Communications's existing fiber-optic and satellite services.

In March 1997, Global Access acquired Satellite Management, Inc., a U.S.-based satellite integrator for business television applications, interactive long distance learning, and corporate communications.

In December 1996, Williams Communications announced the formation of The Business Channel, a joint venture with the Public Broadcast Service (PBS), to utilize Internet, video-on-demand, fiber-optic and satellite technologies to bring professional development and training services to the business community.

REGULATORY MATTERS

The equipment WCS sells must meet the requirements of Part 68 of the Federal Communications Commission (FCC) rules governing the equipment registration, labeling and connection of equipment to telephone networks. WCS 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 WCS's operations.

Williams Communications, Inc. is subject to FCC regulations as common carriers with regard to certain of their transmission services and are subject to the laws of certain states governing public utilities. 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 intrastate 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. Although Williams Communications, Inc. intends to pass on such charges to its customers, FCC rulings raise questions about the right of companies like Williams Communications, Inc. to do so.

COMPETITION

WCS has many competitors ranging from Lucent Technologies and the Regional Bell Operating Companies to small individually-owned companies that sell and service customer premise equipment.

Competitors include companies that sell equipment comparable or identical to that sold by WCS. There are virtually no barriers to entry into this market.

Vyvx's video and multimedia transmission operations compete primarily with companies offering video or multimedia transmission services by means of satellite facilities and to a lesser degree with companies offering transmission services via microwave facilities or fiber-optic cable.

Network faces existing competition from a number of large, well-established interexchange carriers, some with extensive fiber optic networks. Several other carriers are constructing or have plans to construct new fiber optic networks or are establishing networks based on dark fiber rights obtained from facilities-based carriers.

Federal telecommunications reform legislation enacted in February 1996 is designed to increase competition both in the long distance market and local exchange market by significantly liberalizing current restrictions on market entry. In particular, the legislation establishes procedures permitting Regional Bell Operating Companies to provide long distance services including, but not limited to, video transmission services, subject to certain restrictions and conditions precedent. Moreover, electric and gas utilities may provide telecommunications services, including long distance services, through separate subsidiaries. The legislation also calls for elimination of federal tariff filing requirements and relaxation of regulation over common carriers. At this time, management cannot predict the impact such legislation may have on the operations of Williams Communications, Inc.

In late 1997, a Federal District Court decision, which has been stayed pending appeal, invalidated provisions of the 1996 federal legislation. While legislation or rulings by appellate courts may overturn this lower court ruling, the Regional Bell Operating companies continue to seek regulatory approval to provide national long distance services. As courts or regulators remove restrictions on the Regional Bell Operating Companies, they will be both important potential customers and important potential competitors of Network.

OWNERSHIP OF PROPERTY

Williams Communications owns part of its fiber-optic transmission facilities and leases the remainder. Approximately 11,000-route miles of its owned facilities are comprised of a single fiber, which is on a portion of the fiber optic network of WorldCom, Inc. ("WorldCom") and is restricted to multimedia content usage. Williams Communications retained this fiber when a predecessor of WorldCom purchased the Company's network services operations in 1995. Williams Communications and WorldCom are currently in litigation to clarify, among other things, whether the usage restriction would permit internet services and Williams Communications' right to purchase additional WorldCom fiber. Williams Communications carries signals by means of its own fiber-optics facilities, as well as carrying signals over fiber-optic facilities leased from third-party interexchange carriers and the various local exchange carriers. Williams Communications holds its satellite transponder capacity under various agreements. Williams Communications owns part of its teleport facilities and holds the remainder under either a management agreement or long-term facilities leases.

Williams Network intends to obtain capacity primarily by means of the fiber optic networks Williams Communications is constructing or plans to construct or acquire, as well as acquiring dark fiber rights on fiber optic facilities of other carriers. Network obtains dark fiber rights in the form of the purchase or lease of "indefeasible rights of use" or "IRUs" in specific fiber strands. Purchased IRUs have many of the characteristics of ownership, including many of the associated risks, but the owner of the fiber optic cable retains legal title to the fibers.

ENVIRONMENTAL MATTERS

Williams Communications is subject to federal, state, and local laws and regulations relating to the environmental aspects of its business. Management believes that Williams 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 Williams Communications.

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.

A plant site in Pensacola, Florida, that was previously operated by a former subsidiary of Williams, has been placed on the National Priorities List. This former subsidiary has also been identified as a potentially responsible party at a National Priorities List cleanup site in Michigan. A third site, located in Lakeland, Florida, which was formerly owned and operated by this subsidiary, is under investigation by the Florida Department of Environmental Protection and cleanup is anticipated. Williams does not believe that the ultimate resolution of the foregoing matters, taken as a whole and after consideration of insurance coverage, contribution or other indemnification arrangements, will have a material adverse financial effect on the Company. See Note 18 of Notes to Consolidated Financial Statements.

At December 31, 1997, the Company had approximately 15,000 full-time employees, of whom approximately 2,300 were represented by unions and covered by collective bargaining agreements. The Company considers its relations with its employees to be generally good.

FORWARD-LOOKING INFORMATION

Certain matters discussed in this report, excluding historical information, include forward-looking statements. Although the Company believes such forward-looking statements are based on reasonable assumptions, no assurance can be given that every objective will be reached. Such statements are made in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995.

As required by such Act, the Company hereby identifies the following important factors that could cause actual results to differ materially from any results projected, forecasted, estimated or budgeted by the Company in forward-looking statements: (i) risks and uncertainties impacting the Company as a whole relate to changes in general economic conditions in the United States; the availability and cost of capital; changes in laws and regulations to which the Company is subject, including tax, environmental and employment laws and regulations; the cost and effects of legal and administrative claims and proceedings against the Company or its subsidiaries or which may be brought against the Company or its subsidiaries; conditions of the capital markets utilized by the Company to access capital to finance operations; and, to the extent the Company increases its investments and activities abroad, such investments and activities will be subject to foreign economies, laws, and regulations; (ii) for the Company's regulated businesses, risks and uncertainties primarily relate to the impact of future federal and state regulations of business activities, including allowed rates of return and the resolution of other matters discussed herein; and (iii) risks and uncertainties associated with the Company's unregulated businesses primarily relate to energy prices and the ability of such entities to develop expanded markets and product offerings as well as their ability to maintain existing markets. It is also possible that certain aspects of the Company's businesses that are currently unregulated may be subject to both federal and state regulation in the future. In addition, future utilization of pipeline capacity will depend on energy prices, competition from other pipelines and alternate fuels, the general level of natural gas and petroleum product demand and weather conditions, among other things. Further, gas prices, which directly impact transportation and gathering and processing throughput and operating profit, may fluctuate in unpredictable ways as may corn prices, which directly affect the Company's ethanol business. Factors impacting future results of the Company's communications business include successful completion of its network build, technological developments, high levels of competition, lack of customer diversification, and general uncertainties of governmental regulation.

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

Williams has no significant foreign operations.

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 18 of Notes to Consolidated Financial Statements. Williams is also subject to other ordinary routine litigation incidental to its businesses.

Contract reformations and gas purchase deficiencies

As a result of FERC Order 636, which requires interstate gas pipelines to change the way they do business, 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.

Current FERC policy associated with Orders 436 and 500 requires interstate gas pipelines to absorb some of the cost of reforming gas supply contracts before allowing any recovery through direct bill or surcharges to transportation as well as sales commodity rates. Under Orders 636, 636-A, 636-B and 636-C, costs incurred to comply with these rules are permitted to be recovered in full, although a percentage of such costs must be allocated to interruptible transportation service.

Pursuant to a stipulation and agreement approved by the FERC, Williams Gas Pipelines Central (Central) has made 11 filings to direct bill take-or-pay and gas supply realignment costs. The total amount approved for direct billing, net of certain amounts collected subject to refunds, is $67 million. An intervenor has filed protests seeking to have the FERC review the prudence and eligibility of approximately $40 million of costs covered by these filings. On July 31, 1996, the administrative law judge issued an initial decision rejecting the intervenor's prudency challenge. On September 30, 1997, the FERC, by a two-to-one vote, reversed the administrative law judge and determined that three life-of-lease producer contracts were imprudently entered into in 1982. Central has filed for rehearing, and management plans to vigorously defend the prudency of these contracts. An intervenor has also filed a protest seeking to have the FERC decide whether non-settlement costs are eligible for recovery under Order No. 636. In January 1997, the FERC held that none of the non-settlement costs could be recovered by Central if these costs were not eligible for recovery under Order No. 636. This order was affirmed on rehearing in April 1997. An initial decision from the administrative law judge is expected in the first quarter of 1998. If the FERC's final ruling on eligibility is unfavorable, Central will appeal these orders to the courts. Central will make additional filings under the applicable FERC orders to recover such additional costs as may be incurred in the future.

Because of the uncertainties pertaining to the outcome of these issues currently pending at the FERC and the status of settlement negotiation and various other factors, Central cannot reasonably estimate the costs that may be incurred nor the related amounts that could be recovered from customers. Central is actively pursuing negotiations with the producers to resolve all outstanding obligations under the contracts. Based on the terms of what Central believes would be a reasonable settlement, $94 million has been accrued as a liability at December 31, 1997, including a $5 million fourth-quarter 1997 charge to expense for additional absorption of future costs. Central also has an $88 million regulatory asset at December 31, 1997, for estimated recovery of future costs from customers. Central cannot predict the final outcome of the FERC's rulings on contract prudency and cost recovery under Order No. 636 and is unable to determine the ultimate liability and loss, if any, at this time. If Central does not prevail in these FERC proceedings or any subsequent appeals, and if Central is able to reach a settlement with the producers consistent with the $94 million accrued liability, the loss could be the total of the regulatory asset and the $40 million of protested assets. Central continues to believe that it entered into the gas purchase contracts in a prudent manner under FERC rules in place at the time. Central also believes that the future recovery of these costs would be in accordance with the terms of Order No. 636.

The foregoing accruals are in accordance with Williams' accounting policies regarding the establishment of such accruals which take into consideration estimated total exposure, as discounted and risk-weighted, as well as costs and other risks associated with the difference between the time costs are incurred and the time such costs are recovered from customers. The estimated portion of such costs recoverable from customers is deferred or recorded as a regulatory asset based on an estimate of expected recovery of the amounts allowed by FERC policy. While Williams believes that these accruals are adequate and the associated regulatory assets are appropriate, costs actually incurred and amounts actually recovered from customers will depend upon the outcome of various court and FERC proceedings, the success of settlement negotiations and various other factors, not all of which are presently foreseeable.

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, 1997, these subsidiaries had reserves totaling approximately $28 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 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, 1997, Central had recorded a liability for approximately $17 million, representing the current estimate of future environmental cleanup costs to be incurred over the next six to ten years. The Field Services unit of Energy Services had recorded an aggregate liability of approximately $12 million, representing the current estimate of its future environmental and remediation costs, including approximately $5 million relating to former Central facilities. Texas Gas and Transcontinental Gas Pipe Line likewise had recorded liabilities for these costs which are included in the $28 million reserve 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 pending recovery as incurred through future rates and other means.

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. Such costs have exceeded this amount. At December 31, 1997, Williams had approximately $11 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.

A lawsuit was filed in May 1993 in a state court in Colorado in which certain claims have been made against various defendants, including Northwest Pipeline, contending that gas exploration and development activities in portions of the San Juan Basin have caused air, water and other contamination. The plaintiffs in the case sought certification of a plaintiff class. In June 1994, the lawsuit was dismissed for failure to join an indispensable party over which the state court had no jurisdiction. The Colorado court of appeals has affirmed the dismissal and remanded the case to Colorado district court for action consistent with the appeals court's decision. Since June 1994, eight individual lawsuits have been filed against Northwest Pipeline and others in U.S. district court in Colorado, making essentially the same claims. The district court has stayed all of the cases involving Northwest Pipeline until the plaintiffs exhaust their remedies before the Southern Ute Indian Tribal Court. Some plaintiffs filed cases in the Tribal court, but none named Northwest Pipeline as a defendant.

Other legal matters

Williams Communications owns one fiber, which is restricted to media content usage, on a portion of the fiber optic network of WorldCom, Inc. ("WorldCom"). Williams Communications retained this fiber, along with an option to purchase additional fiber from WorldCom in connection with WorldCom's subsequent fiber builds, acquisitions, and expansions, when a predecessor of WorldCom purchased the Company's network services operations in 1995. On March 20, 1998, Williams Communications filed suit in Oklahoma District Court in Tulsa County against WorldCom claiming that WorldCom had failed to fulfill its obligations associated with the single fiber as well as a number of other obligations arising from the agreements entered into in 1995 in conjunction with the network services operations sale.

In 1991, the Southern Ute Indian Tribe (the Tribe) filed a lawsuit against Williams Production Company (Williams Production), a wholly-owned subsidiary of Williams, and other gas producers in the San Juan Basin area, alleging that certain coal strata were reserved by the United States for the benefit of the Tribe and that the extraction of coal-seam gas from the coal strata was wrongful. The Tribe seeks compensation for the value of the coal-seam gas. The Tribe also seeks an order transferring to the Tribe ownership of all of the defendants' equipment and facilities utilized in the extraction of the coal-seam gas. In September 1994, the court granted summary judgment in favor of the defendants and the Tribe lodged an interlocutory appeal with the U.S. Court of Appeals for the Tenth Circuit. Williams Production agreed to indemnify the Williams Coal Seam Gas Royalty Trust (Trust) against any losses that may arise in respect of certain properties subject to the lawsuit. In addition, if the Tribe is successful in showing that Williams Production has no rights in the coal-seam gas, Williams Production has agreed to pay to the Trust for distribution to then-current unitholders, an amount representing a return of a portion of the original purchase price paid for the units. On July 16, 1997, the U.S. Court of Appeals for the Tenth Circuit reversed the decision of the district court, held that the Tribe owns the coal-seam gas produced from certain coal strata on fee lands within the exterior boundaries of the Tribe's reservation, and remanded the case to the district court for further proceedings. On September 16, 1997, Amoco Production Company, the class representative for the defendant class (of which Williams Production is a part), filed its motion for rehearing en banc before the Court of Appeals. On December 4, 1997, the Tenth Circuit Court of Appeals agreed to rehear the appeal.

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. In one of the two remaining cases, a jury verdict found that Transcontinental Gas Pipe Line was required to pay to a producer damages of $23.3 million including $3.8 million in attorneys' fees. Transcontinental Gas Pipe Line is considering an appeal. In the other remaining case, a producer has asserted damages, including interest calculated through December 31, 1996, of approximately $6 million.

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...........	55	Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)	05-19-94
John C. Bumgarner, Jr. ...	55	Senior Vice President -- Corporate Development and Planning; President -- Williams International Company	01-01-79
James R. Herbster.........	56	Senior Vice President -- Administration	01-01-92
Jack D. McCarthy..........	55	Senior Vice President -- Finance (Principal Financial Officer)	01-01-92
William G. von Glahn......	54	Senior Vice President and General Counsel	08-01-96
Gary R. Belitz............	48	Controller (Principal Accounting Officer)	01-01-92
Stephen L. Cropper........	48	President -- Williams Energy Group	10-01-96
Howard E. Janzen..........	44	President and Chief Operating Officer -- Williams Communications, Inc.	02-11-97
Brian E. O'Neill..........	62	President -- Williams Interstate Natural Gas Systems, Inc.	01-01-88

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 such period.

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, 1997, Williams had approximately 12,250 holders of record of its Common Stock. The daily closing price ranges (composite transactions) and dividends declared by quarter for each of the past two years (adjusted to reflect the December 29, 1997, two-for-one common stock split and distribution) are as follows:

	1997			1996		
QUARTER	HIGH	LOW	DIVIDEND	HIGH	LOW	DIVIDEND
1st	$23.38	$18.19	$.13	$17.00	$14.25	$.114
2nd	$23.50	$20.00	$.13	$17.71	$15.58	$.113
3rd	$24.59	$21.56	$.13	$17.29	$15.25	$.113
4th	$28.50	$23.09	$.15	$19.16	$16.25	$ .13

On December 29, 1997, the Company distributed one additional share of Common Stock of the Company, $1 par value, for every share of Common Stock outstanding on December 5, 1997, pursuant to a two-for-one stock split.

ITEM 6. SELECTED FINANCIAL DATA

The following financial data are an integral part of, and should be read in conjunction with, the consolidated financial statements and notes thereto. 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-1 THROUGH F-13 of this report.

	1997	1996	1995	1994	1993
	(MILLIONS, EXCEPT PER-SHARE AMOUNTS)				
Revenues	$ 4,409.6	$ 3,531.2	$ 2,855.7	$1,751.1	$1,793.4
Income from continuing operations(1)	350.5	362.3	299.4	164.9	185.4
Income from discontinued operations(2)	--	--	1,018.8	94.0	46.4
Extraordinary loss(3)	(79.1)	--	--	(12.2)	--
Diluted earnings per share:(4)					
Income from continuing operations	1.04	1.07	.92	.51	.57
Income from discontinued operations	--	--	3.25	.30	.15
Extraordinary loss(3)	(.24)	--	--	(.04)	--
Cash dividends per common share(4)	.54	.47	.36	.28	.26
Total assets at December 31	13,879.0	12,418.8	10,561.2	5,226.1	5,020.4
Long-term obligations at December 31	4,565.3	4,376.9	2,874.0	1,307.8	1,604.8
Stockholders' equity at December 31	3,571.7	3,421.0	3,187.1	1,505.5	1,724.0

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(1) See Notes 2 and 6 of Notes to Consolidated Financial Statements for discussion of the gain on sale of interest in subsidiary, significant asset sales and write-offs in 1997, 1996 and 1995. Income from continuing operations in 1994 includes a $22.7 million pre-tax gain from the sale of a portion of Williams' interest in Northern Border Partners, L.P. Income from continuing operations in 1993 includes a pre-tax gain of $51.6 million as a result of the sale of 6.1 million units in the Williams Coal Seam Gas Royalty Trust.

(2) See Note 3 of Notes to Consolidated Financial Statements for discussion of the gain from the 1995 sale of discontinued operations. Amounts prior to 1995 reflect operating results of the network services' operations.

(3) See Note 8 of Notes to Consolidated Financial Statements for discussion of the 1997 extraordinary loss.

(4) Per-share amounts reflect the adoption of Statement of Financial Accounting Standards No. 128, "Earnings per Share," and the effect of the December 29, 1997, common stock split and distribution as discussed in Notes 1 and 15, respectively, of Notes to Consolidated Financial Statements.

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

RESULTS OF OPERATIONS

1997 vs. 1996

CENTRAL'S revenues increased $6 million, or 3 percent, due primarily to the net effect of adjustments to certain accruals in 1997. Total throughput decreased 4.2 TBtu, or 1 percent, due primarily to lower interruptible volumes.

Other (income) expense -- net includes a $7 million gain from the sale-in-place of natural gas from a decommissioned storage field.

Operating profit increased $12.2 million, or 27 percent, due primarily to the gain from the sale-in-place of natural gas, lower operating and maintenance expenses, an increase in firm reserved capacity and lower general and administrative expenses.

KERN RIVER GAS TRANSMISSION'S (KERN RIVER) revenues increased $6.5 million, or 4 percent, due primarily to a full year of Williams' ownership in 1997 as compared to 1996 and increased transportation revenues. Results for 1996 reflect operations from January 16, 1996, when Williams acquired the remaining interest in

Kern River. Total throughput increased 15.5 TBtu, or 6 percent, due primarily to the full year of Williams' ownership in 1997 and increased firm transportation volumes during the last half of 1997.

Operating profit increased $7.3 million, or 6 percent, due primarily to the full year of Williams' ownership in 1997, higher transportation revenues and lower operations and maintenance expenses, partially offset by the impact of Kern River's levelized rate design.

NORTHWEST PIPELINE'S revenues increased $3.4 million, or 1 percent, due primarily to a new rate design, effective March 1, 1997, that enabled greater short-term firm and interruptible transportation volumes and a $3.5 million gain on the sale of system balancing gas. Largely offsetting these increases were $7 million of adjustments to rate refund accruals in 1997 and the effect of $9 million of revenue in 1996 associated with reserve reversals and favorable regulatory decisions. Total throughput decreased 120.3 TBtu, or 14 percent, as a result of the 1996 sale of the south-end facilities.

Operating profit decreased $900,000, or 1 percent, due primarily to the combined impact of the increase to rate reserve accruals in 1997 and recognition in 1996 of favorable regulatory actions, significantly offset by the new transportation rates effective in 1997, lower operating and maintenance expenses and the $3.5 million gain on the sale of system balancing gas.

TEXAS GAS TRANSMISSION'S revenues decreased $13.1 million, or 4 percent, and costs and operating expenses decreased $13 million, or 8 percent, due primarily to lower reimbursable costs passed through to customers as provided in Texas Gas' rates including $6 million related to the suspension of gas supply realignment cost recovery from firm transportation customers. Total throughput decreased 20.9 TBtu, or 3 percent.

Operating profit increased $2.5 million, or 3 percent, due primarily to cost reductions and efficiency efforts and the favorable resolutions in 1997 of certain contractual and regulatory issues, partially offset by lower gas processing revenue and favorable 1996 adjustments to rate refund accruals.

TRANSCONTINENTAL GAS PIPE LINE'S (TRANSCO) revenues increased $5.9 million, or 1 percent, due primarily to the effects of a mainline expansion placed into service in late 1996, new services begun in late 1997, new rates effective May 1, 1997, to recover costs associated with increased capital expenditures, and the effects of a 1996 downward adjustment (offset in costs) of $14 million to reflect a rate case settlement, partially offset by $23 million of lower reimbursable costs passed through to customers as provided in Transco's rates. Total throughput decreased 21.1 TBtu, or 1 percent, due primarily to milder weather during 1997 as compared to 1996, which lowered firm long-haul and production area interruptible transportation volumes.

Costs and operating expenses decreased $17.3 million, or 4 percent, due primarily to the lower reimbursable costs charged to Transco and passed through to customers, lower operation and maintenance expenses and a $5.4 million settlement related to a prior rate proceeding, partially offset by the effect of a 1996 downward adjustment (offset in revenues) of $14 million to depreciation expense to reflect a rate case settlement and higher depreciation expense in 1997 associated with recent capital expenditures.

Operating profit increased $30.7 million, or 16 percent, due primarily to lower operation and maintenance expenses, the $5.4 million settlement and the effects of the mainline expansion, new services and the new rates effective May 1, 1997, slightly offset by higher depreciation expense.

ENERGY MARKETING & TRADING'S revenues decreased $125.3 million, or 48 percent, and costs and operating expenses decreased $141 million, or 93 percent, due primarily to the 1997 reporting on a net margin basis of certain natural gas and gas liquids marketing operations previously not considered to be included in trading operations. Excluding this decrease, revenues increased $16 million due primarily to the initial income recognition from long-term electric power contracts, increased physical and notional natural gas volumes of 22 percent and 44 percent, respectively, and higher petroleum trading volumes, partially offset by lower natural gas trading margins as a result of decreased price volatility. Revenues also increased from project financing services for energy producers and the sale of excess transportation capacity.

Operating profit increased $4.2 million, or 6 percent, due primarily to the $16 million increase in net revenues and a $6.3 million recovery of an account previously written off, largely offset by the expenses associated with expansion of business growth platforms.

EXPLORATION & PRODUCTION'S revenues increased $47.7 million, or 58 percent, due primarily to higher average natural gas sales prices for company-owned production and from the marketing of Williams Coal Seam Gas Royalty Trust (Royalty Trust) natural gas, and a 21 percent increase in company-owned production volumes.

Costs and operating expenses increased $23 million, or 32 percent, due primarily to higher Royalty Trust natural gas purchase prices, increased production activities and higher dry hole costs.

Operating profit increased $27.5 million, from $2.8 million in 1996, due primarily to the increase in average natural gas prices and company-owned production volumes, partially offset by higher expenses associated with increased activity levels.

FIELD SERVICES' revenues increased $74 million, or 12 percent, due primarily to higher natural gas liquids sales of $44 million, receipt of $8 million of business interruption insurance proceeds related to a 1996 claim, and higher gathering, processing and condensate revenues of $7 million, $5 million and $11 million, respectively. Natural gas liquids sales increased due to a 37 percent increase in volumes, slightly offset by lower average sales prices.

Costs and operating expenses increased $79 million, or 20 percent, due primarily to $56 million higher fuel and replacement gas purchases, a $9 million increase in operating and maintenance expenses, and $8 million higher depreciation.

Other (income) expense -- net for 1996 includes a $20 million gain from the property insurance coverage associated with construction of replacement gathering facilities and $6 million of gains from the sale of two small gathering systems, partially offset by $5 million of environmental remediation accruals.

Operating profit decreased $24.4 million, or 13 percent, due primarily to lower per-unit liquids margins, the $12 million net effect of lower insurance recoveries between 1997 and 1996, higher operating and maintenance expenses, increased depreciation, and higher gathering fuel and replacement gas purchase costs, partially offset by increased liquids and processing volumes.

PETROLEUM SERVICES' revenues increased $55.4 million, or 11 percent, due primarily to a $24 million increase in product sales from transportation activities and a $27 million increase in ethanol sales. Ethanol sales increased as a result of 22 percent higher sales volumes, partially offset by lower average ethanol sales prices. Ethanol production was reduced during the second half of 1996 due to unfavorable market conditions. Pipeline shipments and average rates were comparable to 1996.

Costs and operating expenses increased $33 million, or 9 percent, due primarily to the increase in refined product sales and ethanol production, partially offset by lower corn costs.

Operating profit increased $21.3 million, or 28 percent, due primarily to increased ethanol sales volumes and per-unit margins.

COMMUNICATIONS' revenues increased $734 million, or 103 percent, due primarily to acquisitions which contributed revenues of approximately $650 million, including $536 million from the acquisition of the customer premise equipment sales and services operations of Northern Telecom. Additionally, increased business activity resulted in a $119 million revenue increase in new system sales, partially offset by a $46 million decrease in system modification revenues. The number of ports in service at December 31, 1997, more than doubled as compared to December 31, 1996, due primarily to the Nortel acquisition. Fiber billable minutes from occasional service increased 47 percent. Dedicated service voice-grade equivalent miles at December 31, 1997, increased 26 percent as compared with December 31, 1996.

Costs and operating expenses increased $550 million, or 102 percent, due primarily to acquired operations, the overall increase in business activity, higher expenses for developing advanced network applications and increased depreciation associated with added capacity. Selling, general and administrative expenses increased $198 million, or 121 percent, due primarily to acquired operations, the overall increase in business activity, higher expenses for developing advanced network applications and expanding the infrastructure of this business for future growth.

Other (income) expense -- net includes $49.8 million of charges in 1997 related to the decision to sell the learning content business, and the write-down of assets and the development expenses associated with certain advanced applications.

Operating profit decreased $62.3 million from a $6.6 million operating profit in 1996 to a $55.7 million operating loss in 1997, due primarily to the other expense charges of $49.8 million and the expense of developing infrastructure while integrating the most recent acquisitions, partially offset by improved operating profit from Communications Solutions including the impact of the Nortel acquisition.

GENERAL CORPORATE EXPENSES increased $9.5 million, or 23 percent, due primarily to costs related to the pending MAPCO acquisition and higher consulting fees. Interest accrued increased $44.6 million, or 12 percent, due primarily to higher borrowing levels including increased borrowing under the $1 billion bank-credit facility and Williams Holdings' commercial paper program, partially offset by a lower average interest rate. The lower average interest rate reflects lower rates on new 1997 borrowings as compared to previously outstanding borrowings. Interest capitalized increased $9 million, or 132 percent, due primarily to capital expenditures for Communications' fiber-optic network. For information concerning the 1997 gain on sale of interest in subsidiary, see Note 2. The 1996 gain on sales of assets results from the sale of certain communication rights. The minority interest in income of consolidated subsidiaries in 1997 is related primarily to the 30 percent interest held by Williams Communications Solutions, LLC's minority shareholders (see Note 2). The $12 million unfavorable change in other income (expense) -- net in 1997 is due primarily to the costs associated with expansion of the sale of receivables program in 1997 and the effect of $10 million of reserve reversals in 1996, partially offset by lower environmental accruals in 1997.

The provision for income taxes on continuing operations decreased $5.1 million, or 3 percent. The effective income tax rate in 1997 is less than the federal statutory rate due primarily to the effect of the non-taxable gain recognized in 1997 (see Note 2) and income tax credits from coal-seam gas production, partially offset by the effects of state income taxes. The effective tax rate in 1996 is less than the federal statutory rate due primarily to income tax credits from research activities and coal-seam gas production, partially offset by the effects of state income taxes. In addition, 1996 includes recognition of favorable adjustments totaling $13 million related to previously provided deferred income taxes on certain regulated capital projects and state income tax adjustments.

The 1997 extraordinary loss results from the early extinguishment of debt (see Note 8).

1996 vs. 1995

CENTRAL'S revenues increased $4.1 million, or 2 percent, due primarily to increased transportation revenue resulting from new tariff rates that became effective August 1, 1995. Total throughput increased 6.9 TBtu, or 2 percent.

Operating profit was substantially the same as the prior year as the effect of a $4 million 1995 reversal of a regulatory accrual was offset by new tariff rates that became effective August 1, 1995.

KERN RIVER'S remaining interest was acquired by Williams on January 16, 1996. Revenues and operating profit amounts for 1996 include the operating results of Kern River since the acquisition date. Kern River's revenues were $160.6 million for 1996, while costs and operating expenses were $35 million, selling, general and administrative expenses were $13 million and operating profit was $113 million. Prior to the acquisition, Williams accounted for its 50 percent ownership in Kern River using the equity method of accounting, with its share of equity earnings recorded in investing income. Throughput was 269.9 TBtu during 1996 (for the period subsequent to the acquisition date). Throughput for 1996 is comparable to 1995.

NORTHWEST PIPELINE'S revenues increased $14.5 million, or 6 percent, due primarily to increased transportation rates, effective February 1, 1996, associated with the expansion of mainline capacity placed into service on December 1, 1995. In addition, $9 million of revenue in 1996 associated with reserve reversals and favorable regulatory decisions was more than offset by the effect of the 1995 reversal of approximately $16 million of accrued liabilities for estimated rate refund accruals. Total throughput increased 8 TBtu, or 1 percent.

Operating profit increased $9.2 million, or 8 percent, due primarily to increased transportation rates associated with the expansion of mainline capacity, and the reserve reversals and favorable regulatory decisions. Partially offsetting were higher depreciation expense associated with the mainline expansion and the approximate $11 million net favorable effect of two 1995 reserve accrual adjustments. The 1995 reserve accrual adjustments included a $16 million favorable adjustment of rate refund accruals based on a favorable rate case order, partially offset by a loss accrual (included in other (income) expense -- net) in connection with a lawsuit involving a former transportation customer.

TEXAS GAS TRANSMISSION'S revenues and operating profit increased $29.8 million, or 11 percent, and $21.1 million, or 33 percent, respectively, due primarily to new rates that became effective April 1, 1995, and an adjustment to regulatory accruals based upon a recent rate case settlement. Also, 1995 reflected operations from January 18, when Williams acquired a majority interest in Transco Energy. Revenues associated with the period January 1 through January 17, 1995, were $16 million. Total throughput increased 141.1 TBtu, or 22 percent, due primarily to a full year of Williams' ownership in 1996 compared to a partial year in 1995 and the impact of a colder winter in 1996.

TRANSCO'S revenues increased $35.1 million, or 5 percent, due primarily to higher natural gas transportation revenues and liquids and liquefiable transportation revenues of $20 million and $9 million, respectively. Additionally, revenue for 1996 reflects a full year of Williams' ownership as compared with 1995, which reflected operations from January 18, 1995, when Williams acquired a majority interest in Transco Energy. Revenues associated with the period January 1 through January 17, 1995, were approximately $36 million. Offsetting these increases were lower revenues resulting from lower transportation costs charged to Transco by others and passed through to customers as provided in Transco's rates. Transportation revenues increased due primarily to increased long-haul throughput, which benefitted from a two-phase system expansion placed in service in late 1996 and late 1995, and new rates effective September 1, 1995, which allowed the passthrough of increased costs. Total throughput increased 176.1 TBtu, or 12 percent, due primarily to a full year of Williams' ownership in 1996 compared to a partial year in 1995.

Operating profit increased $29.6 million, or 18 percent, due primarily to increased transportation revenues, lower general and administrative expenses and a full year of Williams' ownership in 1996, partially offset by higher operation and maintenance expenses and higher taxes other than income taxes.

ENERGY MARKETING & TRADING'S revenues increased $107.6 million, or 70 percent, due primarily to higher natural gas and gas liquids marketing, price-risk management activities and petroleum product marketing of $77 million, $24 million and $18 million, respectively, partially offset by lower contract origination revenues of $10 million. Natural gas and gas liquids marketing revenues increased due to higher marketing volumes and prices. In addition, net physical trading revenues increased $3 million, due to a 19 percent increase in natural gas physical trading volumes from 754 TBtu to 896 TBtu, largely offset by lower physical trading margins.

Costs and operating expenses increased $73 million, or 94 percent, due primarily to higher natural gas purchase volumes and prices.

Operating profit increased $33.2 million, or 100 percent, due primarily to higher price-risk management revenues, a reduction of development costs associated with its information products business and increased natural gas marketing volumes. Partially offsetting were higher selling, general and administrative expenses and lower contract origination revenues resulting from the impact of profits realized from certain long-term natural gas supply obligations in 1995.

EXPLORATION & PRODUCTION'S revenues increased $19.5 million, or 31 percent, due primarily to higher revenues from the marketing of production from the Royalty Trust and increased production revenues of $9 million and $8 million, respectively. The increase in marketing revenues reflects both increased volumes and higher average gas prices. The increase in production revenues reflects higher average gas prices.

Costs and operating expenses increased $18 million due primarily to higher Royalty Trust natural gas purchase costs. Other (income) expense -- net in 1995 includes an $8 million loss accrual for a future minimum price natural gas commitment.

Operating profit increased $8.7 million to $2.8 million in 1996 due primarily to the effect of the $8 million 1995 loss accrual.

FIELD SERVICES' revenues increased $83.4 million, or 16 percent, due primarily to higher natural gas liquids sales revenues of $64 million combined with higher gathering and processing revenues of $6 million and $13 million, respectively. Natural gas liquids sales revenues increased due to a 36 percent increase in volumes combined with higher average prices. Gathering and processing volumes each increased 19 percent while average gathering rates decreased.

Costs and operating expenses increased $52 million, or 15 percent, due primarily to higher fuel and replacement gas purchases, expanded facilities and increased operations. Other (income) expense -- net for 1996 includes a $20 million gain from the property insurance coverage associated with construction of replacement gathering facilities and $6 million of gains from the sale of two small gathering systems, partially offset by $5 million of environmental remediation accruals. Other (income) expense -- net for 1995 includes $20 million in operating profit from a favorable resolution of contingency issues involving previously regulated gathering and processing assets.

Operating profit increased $26.4 million, or 16 percent, due primarily to higher natural gas liquids margins and higher gathering and processing revenues, partially offset by higher costs and operating expenses. Operating profit was favorably impacted in both 1996 and 1995 by approximately $20 million of other income.

PETROLEUM SERVICES' revenues increased $165.2 million, or 50 percent, due primarily to an increase in transportation activities and ethanol sales of $31 million and $133 million, respectively. Revenues from transportation activities increased due primarily to a 10 percent increase in shipments and a $14 million increase in product sales. Shipments increased as a result of new business and the 1995 impacts of unfavorable weather conditions and a fire at a truck-loading rack. Average length of haul and transportation rate per barrel were slightly below 1995 due primarily to shorter haul movements. Ethanol revenues increased following the August 1995 acquisition of Pekin Energy and the fourth-quarter 1995 completion of the Aurora plant.

Costs and operating expenses increased $155 million, or 68 percent, due primarily to a full year of ethanol production activities.

Operating profit increased $6.5 million, or 9 percent, due primarily to increased shipments, partially offset by lower ethanol margins and production levels as a result of record high corn prices.

COMMUNICATIONS' revenues increased $172.4 million, or 32 percent, due primarily to the 1996 acquisitions which contributed revenues of $95 million. Additionally, increased business activity resulted in a $36 million revenue increase in new systems sales and a $16 million increase in digital fiber television services. The number of ports in service at December 31, 1996, increased 8 percent and billable minutes from occasional service increased 16 percent. Dedicated service voice-grade equivalent miles at December 31, 1996, decreased 6 percent as compared with December 31, 1995, which in part reflects a shift to occasional service.

Costs and operating expenses increased $126 million, or 31 percent, and selling, general and administrative expenses increased $63 million, or 62 percent, due primarily to the overall increase in business activity and higher expenses for developing additional products and services, including the cost of integrating the most recent acquisitions.

Operating profit decreased $18.4 million, or 74 percent, due primarily to the expenses of developing additional products and services along with integrating the most recent acquisitions.

GENERAL CORPORATE EXPENSES increased $3.7 million, or 10 percent, due primarily to higher employee compensation expense and consulting fees, partially offset by the effect of a $5 million contribution in 1995 to The Williams Companies Foundation. Interest accrued increased $82 million, or 30 percent, due primarily to higher borrowing levels including debt associated with the January 1996 acquisition of the remaining interest in Kern River (see Note 2), slightly offset by lower average interest rates. Interest capitalized decreased

$7.6 million, or 53 percent, due primarily to lower capital expenditures for gathering and processing facilities and the 1995 completion of Northwest Pipeline's mainline expansion. Investing income decreased $75.1 million, or 80 percent, due primarily to the effect of interest earned in 1995 on the invested portion of the cash proceeds from the sale of Williams' network services operations, a $15 million dividend in 1995 from Texasgulf Inc. (sold in 1995), and $31 million lower equity earnings from Williams' 50 percent ownership in Kern River. Kern River's 1996 operating results are included in operating profit since the acquisition date (see Note 2). The 1996 gain on sales of assets results from the sale of certain communication rights. The 1995 loss on sales of assets results from the sale of the 15 percent interest in Texasgulf Inc. The 1995 write-off of project costs results from the cancellation of an underground coal gasification project in Wyoming (see Note 6). Minority interest in income of consolidated subsidiaries in 1995 is associated with the Transco merger. The $2 million favorable change in other income (expense) -- net in 1996 is due primarily to approximately $10 million of reserve reversals in 1996, partially offset by higher environmental accruals of $4 million and additional expense of international activities.

The $81.1 million, or 79 percent, increase in the provision for income taxes on continuing operations is primarily a result of higher pre-tax income and a higher effective income tax rate. The increase in the effective income tax rate is the result of the 1995 recognition of $29.8 million of previously unrecognized tax benefits realized as a result of the sale of Texasgulf Inc. (see Note 6). The effective income tax rate in 1996 is less than the federal statutory rate due primarily to income tax credits from research activities and coal-seam gas production, partially offset by the effects of state income taxes. In addition, 1996 includes recognition of favorable adjustments totaling $13 million related to previously provided deferred income taxes on certain regulated capital projects and state income tax adjustments related to 1995. The effective income tax rate in 1995 is less than the federal statutory rate due primarily to income tax credits from coal-seam gas production, partially offset by the effects of state income taxes and minority interest. In addition, 1995 includes the previously unrecognized tax benefits related to the sale of Texasgulf Inc. (see Note 6) and recognition of an $8 million income tax benefit resulting from settlements with taxing authorities (see Note 7).

On January 5, 1995, Williams sold its network services operations to LDDS Communications, Inc. for $2.5 billion in cash. The sale yielded an after-tax gain of approximately $1 billion, which is reported as income from discontinued operations (see Note 3).

Preferred stock dividends decreased $4.9 million, or 32 percent, due primarily to the 1995 effect of a difference in the fair value of subordinated debentures issued and the carrying value of the exchanged $2.21 cumulative preferred stock (see Note 15).

FINANCIAL CONDITION AND LIQUIDITY

Debt Restructuring

In September 1997, Williams initiated a restructuring of a portion of its debt portfolio (see Note 14). As of December 31, 1997, Williams has 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 (see Note 8). The restructuring is expected to reduce interest expense by approximately $25 million annually. The restructuring was temporarily financed with a combination of borrowings under the $1 billion bank-credit facility, commercial paper and new short-term bank agreements with commitments totaling $1.2 billion. Registration statements were filed with the Securities and Exchange Commission in September 1997 by Williams, Williams Holdings of Delaware, Northwest Pipeline and Transcontinental Gas Pipe Line (each a wholly-owned subsidiary of Williams). These additional filings brought the total shelf financing availability to $900 million, $820 million, $400 million and $500 million, respectively, prior to the restructuring. During the fourth quarter of 1997 and January 1998, $1.1 billion of debentures and notes with interest rates ranging from 5.91 percent to 6.625 percent were issued under these registration statements in connection with the restructuring. The restructuring is expected to be completed during the first quarter of 1998 with the issuance of additional long-term debt securities.

Liquidity

Williams considers its liquidity to come from two sources: internal liquidity, consisting of available cash investments, and external liquidity, consisting of borrowing capacity from available bank-credit facilities and Williams Holdings' commercial paper program, which can be utilized without limitation under existing loan covenants. At December 31, 1997, Williams had access to $155 million of liquidity including $132 million available under its $1 billion bank-credit facility. This compares with liquidity of $550 million at December 31, 1996, and $656 million at December 31, 1995. The decrease in 1997 is due primarily to additional borrowings under the bank-credit facility to finance increased capital expenditures and to provide interim financing related to the debt restructuring program.

During 1997, Williams Holdings entered into a commercial paper program backed by $650 million of new short-term bank-credit facilities. At December 31, 1997, $645 million of commercial paper was outstanding under the program. After completion of the debt restructuring, Williams expects approximately $1 billion of shelf availability to remain under outstanding registration statements. These registration statements may be used to issue a variety of debt or equity securities. In addition, short-term uncommitted bank lines are utilized in managing liquidity. Williams believes any additional financing arrangements can be obtained on reasonable terms if required.

Williams had a net working-capital deficit of $772 million at December 31, 1997, compared with $309 million at December 31, 1996. Williams manages its borrowings to keep cash and cash equivalents at a minimum and has relied on bank-credit facilities to provide flexibility for its cash needs. As a result, it historically has reported negative working capital. The increase in the working-capital deficit at December 31, 1997, as compared to prior year-end is primarily a result of short-term borrowings under the commercial paper program.

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

During 1998, Williams expects to finance capital expenditures, investments and working-capital requirements through cash generated from operations and the use of the available portion of its $1 billion bank-credit facility, commercial paper, short-term uncommitted bank lines and debt or equity public offerings.

Operating Activities

Cash provided by operating activities was: 1997 -- $920 million; 1996 -- $710 million; and 1995 -- $829 million. Receivables, inventories and accounts payable increased due primarily to the combination of customer equipment sales and services operations with Nortel (see Note 2) and increased trading activities by Energy Marketing & Trading.

Financing Activities

Net cash provided (used) by financing activities was: 1997 -- $317 million; 1996 -- $734 million; and 1995 -- ($1.4) billion. Long-term debt principal payments, net of debt proceeds, were $161 million during 1997, and notes payable proceeds, net of notes payable payments, were $615 million during 1997. The increase in notes payable at December 31, 1997, reflects borrowings under the new commercial paper program to fund capital expenditures, investments and acquisition of businesses. Long-term debt proceeds, net of principal payments, were $609 million during 1996. The increase in net new borrowings during 1996 was primarily to fund capital expenditures, investments and acquisitions of businesses. Long-term debt principal payments, net of debt proceeds, were $610 million during 1995. The net payments in 1995 were primarily a result of payments Williams made to retire and/or terminate approximately $700 million of Transco Energy's borrowings, preferred stock, interest-rate swaps and sale of receivable facilities in connection with the acquisition of Transco Energy.

The proceeds from issuance of common stock in 1997, 1996 and 1995 include Williams' benefit plan stock purchases and exercise of stock options under Williams' stock plan. The 1995 proceeds from issuance of common stock also includes $46.2 million from the sale of 3.6 million shares of Williams common stock.

The 1996 purchases of Williams' treasury stock include 1.9 million shares of common stock on the open market for $31 million. The Williams' board of directors authorized up to $800 million of such purchases. No additional shares were purchased during 1997, and Williams' board of directors terminated the repurchase program during the fourth quarter of 1997.

Long-term debt at December 31, 1997, was $4.6 billion, compared with $4.4 billion at December 31, 1996, and $2.9 billion at December 31, 1995. At December 31, 1997 and 1996, $560 million and $200 million, respectively, in current debt obligations have been classified as non-current obligations based on Williams' intent and ability to refinance on a long-term basis. The 1996 increase in long-term debt is due primarily to the $643 million outstanding debt assumed with the acquisition of Kern River (see Note 2), $300 million in additional borrowings under the $1 billion bank-credit facility and $250 million of debt issued by Williams Holdings. The long-term debt to debt-plus-equity ratio was 56.1 percent for 1997 and 1996 compared to 47.4 percent at December 31, 1995. If short-term notes payable and long-term debt due within one year are included in the calculations, these ratios would be 59.7 percent, 57.9 percent and 50.1 percent, respectively.

Investing Activities

Net cash provided (used) by investing activities was: 1997 -- ($1.3) billion; 1996 -- ($1.4) billion; and 1995 -- $585 million. Capital expenditures of gas pipeline subsidiaries, primarily to expand and modernize systems, were $419 million in 1997, $441 million in 1996, and $445 million in 1995. Expenditures in 1997 and 1996 include Transcontinental Gas Pipe Line's expansion; expenditures in 1995 include Transcontinental Gas Pipe Line and Northwest Pipeline's expansions. Capital expenditures of Energy Services, primarily to expand and modernize gathering and processing facilities, were $305 million in 1997, $292 million in 1996, and $336 million in 1995. Capital expenditures of Communications were $276 million in 1997, $67 million in 1996, and $32 million 1995. The 1997 expenditures include the fiber-optic network. Budgeted capital expenditures and investments for 1998 are estimated to be approximately $2.5 billion, primarily to expand and modernize pipeline systems, gathering and processing facilities and the fiber-optic network. If the pending MAPCO acquisition is completed, budgeted capital expenditures will increase an estimated $400 million.

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 (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. Williams recorded the 30 percent reduction in its operations contributed to the LLC as a sale to the minority shareholders of the LLC (see Note 2). During 1997, Williams also purchased a 20 percent interest in a foreign telecommunications business for $65 million in cash. During 1996, Williams acquired the remaining interest in Kern River for $206 million cash (see Note 2). In addition, during 1996 Williams acquired various communications technology businesses totaling $165 million in cash. In 1995, Williams acquired all of Transco Energy's outstanding common stock for cash of $430.5 million and 31.2 million shares of Williams common stock valued at $334 million (see Note 2). During 1995, Williams also acquired the Gas Company of New Mexico's natural gas gathering and processing assets in the San Juan and Permian basins for $154 million and Pekin Energy Co., the nation's second largest ethanol producer, for $167 million in cash.

During 1995, Williams received proceeds of $2.5 billion in cash from the sale of its network services operations (see Note 3) and proceeds of $124 million from the sale of its 15 percent interest in Texasgulf Inc. (see Note 6).

NEW ACCOUNTING STANDARDS

See Note 1 for the effects of Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income," and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information."

MAPCO ACQUISITION

On November 24, 1997, Williams and MAPCO Inc. announced that they had entered into a definitive merger agreement whereby Williams would acquire MAPCO by exchanging 1.665 share of Williams common stock for each outstanding share of MAPCO common stock. In addition, outstanding MAPCO employee stock options would be converted into Williams common stock. Based on the closing market price of Williams common stock on December 31, 1997, approximately 96.8 million shares of Williams common stock valued at approximately $2.8 billion would be issued in the transaction (see Note 19). The transaction closed on March 28, 1998.

EFFECTS OF INFLATION

Williams has experienced increased costs in recent years due to the effects of inflation. However, approximately 66 percent of Williams' property, plant and equipment has been acquired or constructed since 1995, a period of relatively low inflation. A substantial portion of Williams' property, plant and equipment is subject to regulation, which limits recovery to historical cost. While Williams believes it will be allowed the opportunity to earn a return based on the actual cost incurred to replace existing assets, competition or other market factors may limit the ability to recover such increased costs.

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 18), 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 $73 million, all of which is accrued at December 31, 1997. Williams expects to seek recovery of approximately $41 million of the accrued costs through future natural gas transmission rates. 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.

YEAR 2000 COMPLIANCE

Williams has initiated an enterprise-wide project to address the year 2000 compliance issue for all technology hardware and software, external interfaces with customers and suppliers, operations process control, automation and instrumentation systems, and facility items. The assessment phase of this project as it relates to traditional information technology areas should be substantially complete by the end of the first quarter of 1998. Completion of the assessment phase for non-traditional information technology areas is expected in mid-1998. Necessary conversion and replacement activities will begin in 1998 and continue through mid-1999. Testing of systems has begun and will continue throughout the process. Williams has initiated a formal communications process with other companies with which Williams' systems interface or rely on to determine the extent to which those companies are addressing their year 2000 compliance, and where necessary, Williams will be working with those companies to mitigate any material adverse effect on Williams.

Williams expects to utilize both internal and external resources to complete this process. Existing resources will be redeployed and previously planned system replacements will be accelerated during this time. For example, implementation of previously planned financial and human resources systems is currently in process. These systems will address the year 2000 compliance issues in certain areas. Costs incurred for new software and hardware purchases will be capitalized and other costs will be expensed as incurred. For the regulated pipelines, Williams considers costs associated with the year 2000 compliance to be prudent costs incurred in the ordinary course of business, and, therefore, recoverable through rates. While the total cost of this project is still being evaluated, Williams estimates that external costs, excluding previously planned system replacements, necessary to complete the project within the schedule described will total at least $15 million. Williams will update this estimate as additional information becomes available. The costs of the project and the completion dates are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third party year 2000 compliance modification plans and other factors. There can be no guarantee that these estimates will be achieved and actual results could differ materially from these estimates.

MARKET RISK DISCLOSURES

Interest Rate Risk

Williams' interest rate risk exposure results from 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. At December 31, 1997, the amount of Williams' fixed and variable rate debt was approximately the same as a result of a debt restructuring program begun in 1997 where Williams extinguished higher cost long-term debt. During early 1998, the percent of fixed rate debt will increase to targeted levels as Williams completes issuing long-term debt under the restructuring program and repays its interim financings. The maturity of Williams' long-term debt portfolio is influenced by the life of its operating assets. 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 has entered into interest rate forward contracts to establish an effective borrowing rate for anticipated long-term debt issuances.

The following table provides information about Williams' notes payable, long-term debt, interest rate swaps and interest rate forward contracts that are subject to interest rate risk. For notes payable and long-term debt, 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.

	1998	1999	2000	2001	2002	THEREAFTER	TOTAL	FAIR VALUE DECEMBER 31, 1997
	(DOLLARS IN MILLIONS)							
Notes payable......................	$ 693	$ --	$ --	$ --	$ --	$ --	$ 693	$ 693
Interest rate......................	6.6%							
Long-term debt, including current portion:								
Fixed rate.......................	$ 40	$219	$251	$776	$ 441	$1,373	$3,100	$3,188
Interest rate....................	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%		
Variable rate....................	$ --	$130	$ --	$276	$1,071	$ 28	$1,505	$1,505
Interest rate(1).................								
Interest rate swaps:								
Pay variable/receive fixed.......	$ 36	$ 42	$ 47	$461	$ --	$ 450	$1,036	$ 9
Pay rate(2)......................								
Receive rate.....................	6.3%	6.3%	6.4%	6.4%	6.8%	6.5%		
Pay fixed/receive variable(3)....	$ 36	$172	$ 47	$ 53	$ 59	$ 349	$ 716	$ (56)
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.........	$1,150	$ --	$ --	$ --	$ --	$ --	$1,150	$ (8)

Average locked in rate of 5.9 percent referenced to underlying Treasury securities having a weighted-average maturity of 6 years.

(1) LIBOR plus .33 percent.

(2) LIBOR, except $250 million notional amount maturing after 2002 is at LIBOR less 1.04 percent.

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

(4) LIBOR.

Commodity Price Risk

Energy Marketing & Trading has trading operations that provide 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-related financial instruments (forward contracts, futures contracts, option contracts and swap agreements) and have commodity inventories and purchase and sale commitments which involve the physical delivery of an energy commodity. These financial instruments and physical positions and commitments are valued at market value and unrealized gains and losses from changes in market 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 manages risk by maintaining its portfolio within established trading policy guidelines. A Risk Control Group, independent of the trading operations, monitors compliance with established trading policy guidelines and measures the risk associated with the trading portfolio.

Energy Marketing & Trading uses a value at risk methodology to estimate the potential one day loss from adverse changes in the market value of its trading operations. At December 31, 1997, the value at risk for the trading operations is $4 million. This reflects a 97.5 percent probability that as a result of changes in commodity prices, the one day loss in the market value of the trading portfolio will not exceed the value at risk. The value at risk includes all the financial instruments and physical positions and commitments that expose the trading operations to market risk. The value-at-risk model estimates assume normal market conditions based upon historical market prices. Value at risk does not purport to represent actual losses in market value that could be incurred from the trading portfolio, nor does it 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 our value at risk model.

Foreign Currency Risk

Williams has investments in companies whose operations are located in foreign countries, of which $87 million are accounted for using the cost method. Fair value for the cost method investments is deemed to approximate their carrying amount, because estimating cash flows by year is not practicable given that the time frame for selling these investments is uncertain. Williams' financial results could be affected 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. Williams attempts to mitigate these risks by investing in different countries and business segments. Approximately 80 percent of the cost method investments are in Asian countries and 20 percent in South American countries. Of the Asian investments, approximately 50 percent are in countries whose currencies have recently suffered significant devaluations and volatility. The ultimate duration and severity of the conditions in Asia remains uncertain as does the long-term impact on Williams' investments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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, 1997 and 1996, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Williams Companies, Inc. at December 31, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Tulsa, Oklahoma
February 13, 1998

THE WILLIAMS COMPANIES, INC.

CONSOLIDATED STATEMENT OF INCOME

	YEARS ENDED DECEMBER 31,		
	1997	1996	1995
	(MILLIONS, EXCEPT PER-SHARE AMOUNTS)		
Revenues:			
Gas Pipelines (Note 4)	$1,683.9	$1,675.2	$1,431.1
Energy Services (Note 4)	1,504.9	1,453.1	1,077.4
Communications (Note 2)	1,445.3	711.3	538.9
Other	38.4	48.0	17.4
Intercompany eliminations (Note 17)	(262.9)	(356.4)	(209.1)
Total revenues	4,409.6	3,531.2	2,855.7
Profit-center costs and expenses:			
Costs and operating expenses	2,664.5	2,064.1	1,700.7
Selling, general and administrative expenses	780.1	585.5	488.8
Other (income) expense--net (Note 6)	38.6	(19.8)	(4.5)
Total profit-center costs and expenses	3,483.2	2,629.8	2,185.0
Operating profit:			
Gas Pipelines (Note 4)	614.2	562.4	389.7
Energy Services (Note 4)	360.9	332.3	257.5
Communications (Notes 2 and 6)	(55.7)	6.6	25.0
Other	7.0	.1	(1.5)
Total operating profit	926.4	901.4	670.7
General corporate expenses	(50.9)	(41.4)	(37.7)
Interest accrued	(404.5)	(359.9)	(277.9)
Interest capitalized	15.9	6.9	14.5
Investing income (Note 5)	19.2	18.8	93.9
Gain on sale of interest in subsidiary (Note 2)	44.5	--	--
Gain (loss) on sales of assets (Note 6)	--	15.7	(12.6)
Write-off of project costs (Note 6)	--	--	(41.4)
Minority interest in income of consolidated subsidiaries (Note 2)	(14.0)	--	(10.0)
Other income (expense)--net	(8.1)	3.9	1.9
Income from continuing operations before income taxes	528.5	545.4	401.4
Provision for income taxes (Note 7)	178.0	183.1	102.0
Income from continuing operations	350.5	362.3	299.4
Income from discontinued operations (Note 3)	--	--	1,018.8
Income before extraordinary loss	350.5	362.3	1,318.2
Extraordinary loss (Note 8)	(79.1)	--	--
Net income	271.4	362.3	1,318.2
Preferred stock dividends (Note 15)	9.8	10.4	15.3
Income applicable to common stock	$ 261.6	$ 351.9	$1,302.9
Basic earnings per common share (Notes 1 and 9):			
Income from continuing operations	$ 1.06	$ 1.10	$ .94
Income from discontinued operations (Note 3)	--	--	3.36
Income before extraordinary loss	1.06	1.10	4.30
Extraordinary loss (Note 8)	(.25)	--	--
Net income	$ .81	$ 1.10	$ 4.30
Diluted earnings per common share (Notes 1 and 9):			
Income from continuing operations	$ 1.04	$ 1.07	$ .92
Income from discontinued operations (Note 3)	--	--	3.25
Income before extraordinary loss	1.04	1.07	4.17
Extraordinary loss (Note 8)	(.24)	--	--
Net income	$ .80	$ 1.07	$ 4.17

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

CONSOLIDATED BALANCE SHEET

ASSETS

	DECEMBER 31, 1997	DECEMBER 31, 1996
	(DOLLARS IN MILLIONS, EXCEPT PER-SHARE AMOUNTS)	
Current assets:		
Cash and cash equivalents	$ 81.3	$ 115.3
Receivables less allowance of $19.3 ($9.7 in 1996)	1,200.5	952.9
Transportation and exchange gas receivable	130.4	117.7
Inventories (Note 11)	300.5	204.6
Commodity trading assets	180.3	147.2
Deferred income taxes (Note 7)	224.6	199.5
Other	138.3	152.9
Total current assets	2,255.9	1,890.1
Investments (Note 5)	291.4	190.6
Property, plant and equipment--net (Note 12)	10,055.6	9,386.3
Goodwill and other intangible assets--net (Notes 1 and 2)	435.2	198.1
Other assets and deferred charges	840.9	753.7
Total assets	$13,879.0	$12,418.8
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable (Note 14)	$ 693.0	$ 269.5
Accounts payable (Note 13)	886.3	683.3
Transportation and exchange gas payable	67.7	73.7
Accrued liabilities (Note 13)	1,157.3	975.3
Commodity trading liabilities	182.0	137.9
Long-term debt due within one year (Note 14)	41.1	59.6
Total current liabilities	3,027.4	2,199.3
Long-term debt (Note 14)	4,565.3	4,376.9
Deferred income taxes (Note 7)	1,718.9	1,626.6
Other liabilities	878.6	787.5
Minority interest in consolidated subsidiaries (Note 2)	117.1	7.5
Contingent liabilities and commitments (Note 18)		
Stockholders' equity (Note 15):		
Preferred stock, $1 par value, 30,000,000 shares authorized, 2,497,472 shares issued in 1997 and 3,241,552 shares issued in 1996	142.2	161.0
Common stock, $1 par value, 480,000,000 shares authorized, 325,065,668 shares issued in 1997 and 320,428,326 shares issued in 1996	325.1	320.4
Capital in excess of par value	957.6	887.5
Retained earnings	2,209.4	2,119.5
Other	(4.5)	(2.2)
	3,629.8	3,486.2
Less treasury stock (at cost), 4,879,127 shares of common stock in 1997 and 5,474,674 shares of common stock in 1996	(58.1)	(65.2)
Total stockholders' equity	3,571.7	3,421.0
Total liabilities and stockholders' equity	$13,879.0	$12,418.8

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	PREFERRED STOCK	COMMON STOCK	CAPITAL IN EXCESS PAR VALUE	RETAINED EARNINGS	OTHER	TREASURY STOCK	TOTAL
	(DOLLARS IN MILLIONS, EXCEPT PER-SHARE AMOUNTS)						
Balance, December 31, 1994	$100.0	$313.2	$782.2	$ 716.5	$(1.3)	$(405.1)	$1,505.5
Net income -- 1995	--	--	--	1,318.2	--	--	1,318.2
Cash dividends --							
Common stock ($.36 per share)	--	--	--	(107.2)	--	--	(107.2)
Preferred stock (Note 15)	--	--	--	(11.9)	--	--	(11.9)
Issuance of shares --							
38,639,762 common	--	2.8	56.9	--	(1.7)	352.7	410.7
2,500,000 preferred	142.5	--	--	--	--	--	142.5
Exchange of shares for debentures --							
2,760,548 preferred (Note 15)	(69.0)	--	(3.5)	--	--	--	(72.5)
Purchase of treasury stock -- 142,800 preferred	--	--	--	--	--	(3.7)	(3.7)
Tax benefit of stock-based awards	--	--	4.8	--	--	--	4.8
Amortization of deferred compensation	--	--	--	--	.7	--	.7
Balance, December 31, 1995	173.5	316.0	840.4	1,915.6	(2.3)	(56.1)	3,187.1
Net income -- 1996	--	--	--	362.3	--	--	362.3
Cash dividends --							
Common stock ($.47 per share)	--	--	--	(148.0)	--	--	(148.0)
Preferred stock (Note 15)	--	--	--	(10.4)	--	--	(10.4)
Issuance of shares -- 5,574,916 common	--	4.4	31.4	--	(.6)	12.0	47.2
Purchase of treasury stock --							
1,915,500 common	--	--	--	--	--	(31.3)	(31.3)
96,300 preferred	--	--	--	--	--	(2.6)	(2.6)
Retirement of treasury stock -- 497,900 preferred	(12.5)	--	(.3)	--	--	12.8	--
Tax benefit of stock-based awards	--	--	16.0	--	--	--	16.0
Amortization of deferred compensation	--	--	--	--	.7	--	.7
Balance, December 31, 1996	$161.0	$320.4	$887.5	$2,119.5	$(2.2)	$ (65.2)	$3,421.0
Net income -- 1997	--	--	--	271.4	--	--	271.4
Cash dividends --							
Common stock ($.54 per share)	--	--	--	(171.7)	--	--	(171.7)
Preferred stock (Note 15)	--	--	--	(9.8)	--	--	(9.8)
Issuance of shares -- 5,221,039 common	--	4.7	48.7	--	(.7)	7.1	59.8
Conversion of preferred stock -- 2,528 shares	(.3)	--	.3	--	--	--	--
Redemption of preferred stock -- 741,552 shares (Note 15)	(18.5)	--	--	--	--	--	(18.5)
Tax benefit of stock-based awards	--	--	21.1	--	--	--	21.1
Amortization of deferred compensation	--	--	--	--	.8	--	.8
Unrealized loss on marketable equity securities	--	--	--	--	(2.4)	--	(2.4)
Balance, December 31, 1997	$142.2	$325.1	$957.6	$2,209.4	$(4.5)	$ (58.1)	$3,571.7

Note: Certain amounts have been restated to reflect the December 29, 1997, two-for-one stock split and distribution.

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

	YEARS ENDED DECEMBER 31, 1997	1996	1995
	(MILLIONS)		
Operating Activities:			
Net income	$ 271.4	$ 362.3	$ 1,318.2
Adjustments to reconcile to cash provided from operations:			
Discontinued operations	--	--	(1,018.8)
Extraordinary loss	79.1	--	--
Premium on early extinguishment of debt	(171.2)	--	--
Depreciation, depletion and amortization	499.5	421.0	375.5
Provision for deferred income taxes	81.8	72.4	125.4
Provision for loss on property and other assets	49.8	--	41.4
(Gain) loss on dispositions of property and interest in subsidiary	(56.8)	(46.4)	10.5
Minority interest in income of consolidated subsidiaries	14.0	--	10.0
Changes in receivables sold	188.6	(13.1)	55.9
Changes in receivables	(180.6)	(214.2)	33.2
Changes in inventories	(73.7)	(16.1)	11.9
Changes in other current assets	25.5	3.8	1.1
Changes in accounts payable	195.8	204.0	(6.5)
Changes in accrued liabilities	(7.9)	(24.9)	(33.4)
Changes in current commodity trading assets and liabilities	11.0	(29.7)	28.1
Changes in non-current commodity trading assets and liabilities	(47.7)	(37.7)	(82.1)
Other, including changes in non-current assets and liabilities	41.0	29.0	(41.7)
Net cash provided by operating activities	919.6	710.4	828.7
Financing Activities:			
Proceeds from notes payable	1,860.4	356.8	116.8
Payments of notes payable	(1,245.9)	(87.3)	(623.8)
Proceeds from long-term debt	2,007.7	1,996.7	399.0
Payments of long-term debt	(2,169.0)	(1,387.7)	(1,009.4)
Proceeds from issuance of common stock	62.9	54.3	78.1
Purchases of treasury stock	--	(33.9)	(3.7)
Dividends paid	(181.5)	(158.4)	(119.1)
Subsidiary preferred stock redemptions	--	--	(193.7)
Other -- net	(17.7)	(6.3)	(3.5)
Net cash provided (used) by financing activities	316.9	734.2	(1,359.3)
Investing Activities:			
Property, plant and equipment:			
Capital expenditures	(1,162.1)	(818.9)	(827.5)
Proceeds from dispositions	100.3	60.2	28.2
Acquisition of businesses, net of cash acquired	(87.0)	(366.2)	(858.9)
Proceeds from sales of businesses	--	--	2,588.3
Income tax and other payments related to discontinued operations	(9.7)	(261.7)	(350.4)
Proceeds from sales of assets	5.2	23.0	125.1
Purchase of investments/advances to affiliates	(134.2)	(76.9)	(49.7)
Purchase of note receivable	--	--	(75.1)
Other -- net	17.0	20.8	4.9
Net cash provided (used) by investing activities	(1,270.5)	(1,419.7)	584.9
Increase (decrease) in cash and cash equivalents	(34.0)	24.9	54.3
Cash and cash equivalents at beginning of year	115.3	90.4	36.1
Cash and cash equivalents at end of year	$ 81.3	$ 115.3	$ 90.4

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Operations of The Williams Companies, Inc. (Williams) are located principally in the United States and are organized into three operating groups as follows: (1) Gas Pipelines, which is comprised of five interstate natural gas pipelines located in the eastern, midsouth, Gulf Coast, midwest and northwest regions; (2) Energy Services, which is comprised of natural gas gathering and processing facilities in the Rocky Mountain, midwest and Gulf Coast regions, energy trading and price-risk management activities throughout the United States, a petroleum products pipeline and ethanol production/marketing operations in the midwest region, and hydrocarbon exploration and production activities in the Rocky Mountain and Gulf Coast regions; and (3) Communications, which includes network integration and management services; video and other multimedia transmission services for the broadcast industry; business audio and video conferencing services; and installation and maintenance of customer-premise voice and data equipment. Additional information about these businesses is contained throughout the following notes.

Basis of Presentation

Revenues and operating profit amounts previously reported as Williams Natural Gas and Merchant Services are now reported as Central and Energy Marketing & Trading, respectively.

On April 30, 1997, Williams and Northern Telecom (Nortel) combined their customer-premise equipment sales and service operations into a limited liability company, Williams Communications Solutions, LLC (LLC), formerly WilTel Communications, LLC (see Note 2). Communications' revenues and operating profit amounts for 1997 include the operating results of the LLC beginning May 1, 1997.

Revenues and operating profit amounts include the operating results of Kern River Gas Transmission Company (Kern River) since the January 16, 1996, acquisition by Williams of the remaining interest (see Note 2). Prior to this acquisition, Williams accounted for its 50 percent ownership in Kern River using the equity method of accounting, with its share of equity earnings recorded in investing income.

Revenues and operating profit amounts include the operating results of Transco Energy Company (Transco Energy) since its January 18, 1995, acquisition by Williams (see Note 2). The transportation operations from Transco Energy's two interstate natural gas pipelines are reported separately within the Gas Pipelines group. Transco Energy's gas gathering operations are included in Field Services, and its gas marketing operations are included in Energy Marketing & Trading.

Principles of Consolidation

The consolidated financial statements include the accounts of Williams and its majority-owned subsidiaries. Companies in which Williams and its subsidiaries own 20 percent to 50 percent of the voting common stock, or otherwise exercise sufficient 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.

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.

Inventory Valuation

Inventories are stated at cost, which is not in excess of market, except for those held by Energy Marketing & Trading, which are primarily stated at market. The cost of inventories is primarily determined using the average-cost method, except for certain inventories held by Transcontinental Gas Pipe Line, which are determined using the last-in, first-out (LIFO) 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 pipeline subsidiaries 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 not exceeding 25 years. Other intangible assets are amortized on a straight-line basis over periods not exceeding 11 years. Accumulated amortization at December 31, 1997 and 1996 was $56 million and $31.8 million, respectively. Amortization of intangible assets was $24.2 million, $9.6 million and $6.2 million in 1997, 1996 and 1995, 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.

Revenue Recognition

Revenues generally are recorded when services have been performed or products have been delivered. Petroleum Services bills customers when products are shipped and defers the estimated revenues for shipments in transit. The Gas Pipelines recognize revenues based upon contractual terms and the related transportation volumes through month-end. These pipelines are subject to Federal Energy Regulatory Commission (FERC) regulations and, accordingly, certain revenues are subject to possible refunds pending final FERC orders. Williams records rate refund accruals based on management's estimate of the expected outcome of these proceedings. Communications' customer-premise equipment sales and service business primarily uses the percentage of completion method of recognizing revenues for services provided.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Commodity Price-Risk Management Activities

Energy Marketing & Trading has trading operations that enter into energy-related derivative financial instruments and derivative commodity instruments (forward contracts, futures contracts, option contracts and swap agreements) to provide price-risk management services to its third-party customers. This trading operation also has commodity inventories and enters into short- and long-term energy-related purchase and sale commitments which involve physical delivery of an energy commodity. These financial instruments, physical inventories and commitments are valued at market and are recorded in commodity trading assets, other assets and deferred charges, commodity trading liabilities and other liabilities in the Consolidated Balance Sheet. The change in unrealized market gains and losses is recognized in income currently and is recorded as revenues in the Consolidated Statement of Income. Such market values are subject to change in the near term and reflect management's best estimate of market prices considering various factors including closing exchange and over-the-counter quotations, liquidity of the market in which the contract is transacted, the terms of the contract, 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 market value accounting for such trading activities.

Certain Energy Marketing & Trading's revenues were not considered to be trading operations in 1996 and 1995 and, therefore, were not reported net of related costs to purchase such items.

Williams' operations also enter into energy-related 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 when the related hedged item is recognized and recorded with the related hedged item. These contracts are initially and regularly evaluated to determine that there is a high correlation between changes in the market value of the hedge contract and market value of the hedged item.

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 expense. Gains and losses from terminations of interest-rate swap agreements are deferred and amortized as an adjustment to interest expense over the original term of the terminated swap agreement.

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.

Williams enters into interest-rate forward contracts to lock-in underlying treasury rates on anticipated long-term debt issuances. The settlement amounts upon termination of the contracts are deferred and amortized as an adjustment to interest expense of the issued long-term debt over the term of the settled forward contract.

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 is included in non-operating other income (expense) -- net.

Employee Stock-Based Awards

Employee stock-based awards are accounted for under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Williams' fixed plan common stock options 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 federal income tax return. 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 assumes issuance of common stock from dilutive stock options and conversion of the $3.50 cumulative convertible preferred stock into common stock effective May 1, 1995. The earnings per share amounts and number of shares for 1996 and 1995 have been restated to reflect the effect of the two-for-one stock split and distribution (see Note 15) and the adoption of Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share" (see Note 9).

New Accounting Standards

In June 1997, the Financial Accounting Standards Board issued two new accounting standards, SFAS No. 130, "Reporting Comprehensive Income," and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." Both standards, effective for fiscal years beginning after December 15, 1997, are disclosure-oriented standards. Therefore, neither standard will affect Williams' reported consolidated net income or cash flows.

NOTE 2. ACQUISITIONS

Nortel

On April 30, 1997, Williams and 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, have been 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 shareholders 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.

If the transaction had occurred on January 1, 1996, Williams' unaudited pro forma revenues for the years ended 1997 and 1996 would have been $4,658 million and $4,268 million, respectively. The pro forma effect of the transaction on Williams' net income is not significant. Pro forma financial information is not necessarily indicative of results of operations that would have occurred if the transaction had occurred on January 1, 1996, or of future results of operations of the combined companies.

Kern River

On January 16, 1996, Williams acquired the remaining interest in Kern River for $206 million in cash. The acquisition was accounted for as a purchase, and the acquired assets and liabilities have been recorded based on an allocation of the purchase price, with substantially all of the cost in excess of Kern River's historical carrying value allocated to property, plant and equipment.

Transco

On January 18, 1995, Williams acquired 60 percent of Transco Energy's outstanding common stock in a cash tender offer for $430.5 million. Williams acquired the remaining 40 percent of Transco Energy's outstanding common stock on May 1, 1995, through a merger by exchanging the remaining Transco Energy common stock for approximately 31.2 million shares of Williams common stock valued at $334 million. The acquisition was accounted for as a purchase with 60 percent of Transco Energy's results of operations included in Williams' Consolidated Statement of Income for the period January 18, 1995, through April 30, 1995, and 100 percent included beginning May 1, 1995. The purchase price, including transaction fees and other related costs, was approximately $800 million, excluding $2.3 billion in preferred stock and debt obligations of Transco Energy.

NOTE 3. DISCONTINUED OPERATIONS

On January 5, 1995, Williams sold its network services operations to LDDS Communications, Inc. for $2.5 billion in cash. The sale yielded a gain of $1 billion (net of income taxes of approximately $732 million) which is reported as income from discontinued operations.

NOTE 4. REVENUES AND OPERATING PROFIT

Revenues and operating profit of Gas Pipelines and Energy Services for the years ended December 31, 1997, 1996 and 1995, are as follows:

	1997	1996	1995
		(MILLIONS)	
Revenues:			
Gas Pipelines:			
Central	$ 184.4	$ 178.4	$ 174.3
Kern River Gas Transmission	167.1	160.6	--
Northwest Pipeline	273.1	269.7	255.2
Texas Gas Transmission	293.0	306.1	276.3
Transcontinental Gas Pipe Line	766.3	760.4	725.3
	$1,683.9	$1,675.2	$1,431.1

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

	1997	1996	1995
		(MILLIONS)	
Energy Services:			
Energy Marketing & Trading	$ 135.8	$ 261.1	$ 153.5
Exploration & Production	130.1	82.4	62.9
Field Services	690.3	616.3	532.9
Petroleum Services	548.7	493.3	328.1
	$1,504.9	$1,453.1	$1,077.4
Operating Profit:			
Gas Pipelines:			
Central	$ 57.0	$ 44.8	$ 45.0
Kern River Gas Transmission	120.3	113.0	--
Northwest Pipeline	124.0	124.9	115.7
Texas Gas Transmission	87.6	85.1	64.0
Transcontinental Gas Pipe Line	225.3	194.6	165.0
	$ 614.2	$ 562.4	$ 389.7
Energy Services:			
Energy Marketing & Trading	$ 70.6	$ 66.4	$ 33.2
Exploration & Production	30.3	2.8	(5.9)
Field Services	163.0	187.4	161.0
Petroleum Services	97.0	75.7	69.2
	$ 360.9	$ 332.3	$ 257.5

NOTE 5. INVESTING ACTIVITIES

Investing income for the years ended December 31, 1997, 1996 and 1995, is as follows:

	1997	1996	1995
		(MILLIONS)	
Interest	$ 9.9	$ 11.1	$ 37.2
Dividends	1.4	1.6	16.1
Equity earnings	7.9	6.1	40.6
	$ 19.2	$ 18.8	$ 93.9

Dividends and distributions received from companies carried on an equity basis were $7 million in 1997 and 1996, and $44 million in 1995.

At December 31, 1997, certain equity investments, with a carrying value of $46 million, have a market value of $175 million.

NOTE 6. ASSET SALES AND WRITE-OFFS

In the fourth quarter of 1997, Communications incurred charges totaling $49.8 million related to the decision to sell the learning content business, and the write-down of assets and the development costs associated with certain advanced applications.

In 1996, Williams recognized a pre-tax gain of $15.7 million from the sale of certain communication rights for approximately $38 million.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

In 1995, the development of a commercial coal gasification venture in south-central Wyoming was canceled, resulting in a $41.4 million pre-tax charge.

In 1995, Williams sold its 15 percent interest in Texasgulf Inc. for approximately $124 million in cash, which resulted in an after-tax gain of approximately $16 million because of previously unrecognized tax benefits included in the provision for income taxes.

NOTE 7. PROVISION FOR INCOME TAXES

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

	1997	1996	1995
		(MILLIONS)	
Current:			
Federal	$ 75.9	$ 96.3	$(26.5)
State	18.4	14.4	3.1
Foreign	1.9	--	--
	96.2	110.7	(23.4)
Deferred:			
Federal	70.4	61.9	114.2
State	11.4	10.5	11.2
	81.8	72.4	125.4
Total provision	$178.0	$183.1	$102.0

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

	1997	1996	1995
		(MILLIONS)	
Provision at statutory rate	$185.0	$190.9	$140.5
Increases (reductions) in taxes resulting from:			
State income taxes	19.3	16.1	13.5
Income tax credits	(16.5)	(19.0)	(18.7)
Non-taxable gain from sale of interest in subsidiary (Note 2)	(15.6)	--	--
Decrease in valuation allowance for deferred tax assets	--	--	(29.8)
Reversal of prior tax accruals	--	--	(8.0)
Other -- net	5.8	(4.9)	4.5
Provision for income taxes	$178.0	$183.1	$102.0

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

	1997	1996*
	(MILLIONS)	
Deferred tax liabilities:		
Property, plant and equipment	$1,839.4	$1,755.8
Investments	120.9	93.3
Other	116.8	120.3
Total deferred tax liabilities	2,077.1	1,969.4
Deferred tax assets:		
Deferred revenues	84.9	31.5
Rate refunds	119.9	111.4
Accrued liabilities	144.5	171.7
Minimum tax credits	131.3	86.8
Other	102.2	140.9
Total deferred tax assets	582.8	542.3
Net deferred tax liabilities	$1,494.3	$1,427.1

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* Reclassified to conform to current classifications.

Cash payments for income taxes (net of refunds) were $48 million, $395 million and $339 million in 1997, 1996 and 1995, respectively.

NOTE 8. EXTRAORDINARY LOSS

In September 1997, Williams initiated a restructuring of its debt portfolio (see Note 14). 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, resulting in an extraordinary loss of $79.1 million (net of a $46.6 million benefit for income taxes). In addition, approximately $30 million of costs to redeem have been deferred as a regulatory asset for rate recovery.

NOTE 9. EARNINGS PER SHARE

Basic and diluted earnings per common share are computed for the years ended December 31, 1997, 1996 and 1995, as follows:

	1997	1996	1995
	(DOLLARS IN MILLIONS, EXCEPT PER-SHARE AMOUNTS; SHARES IN THOUSANDS)		
Income from continuing operations	$350.5	$362.3	$299.4
Preferred stock dividends	(9.8)	(10.4)	(15.3)
Income from continuing operations available to common stockholders for basic earnings per share	340.7	351.9	284.1
Effect of dilutive securities:			
Convertible preferred stock dividends	8.7	8.8	5.8
Income from continuing operations available to common stockholders for diluted earnings per share	$349.4	$360.7	$289.9
Basic weighted-average shares	321,184	319,048	302,807
Effect of dilutive securities:			
Convertible preferred stock	11,717	11,718	7,866
Stock options	4,638	5,232	3,370
	16,355	16,950	11,236
Diluted weighted-average shares	337,539	335,998	314,043
Earnings per share from continuing operations:			
Basic	$1.06	$1.10	$.94
Diluted	$1.04	$1.07	$.92

Options to purchase approximately 3.1 million shares of common stock at a weighted-average exercise price of $27.93 were outstanding at December 31, 1997, but were not included in the computation of diluted earnings per common share. Inclusion of these shares would be antidilutive, as the exercise prices of the options exceed the average market price of the common shares.

NOTE 10. EMPLOYEE BENEFIT PLANS

Pensions

Williams maintains non-contributory defined-benefit pension plans covering substantially all of its employees. Benefits are based on years of service and average final compensation. Pension costs are funded to satisfy minimum requirements prescribed by the Employee Retirement Income Security Act of 1974.

Net pension expense consists of the following:

	1997	1996	1995
		(MILLIONS)	
Service cost for benefits earned during the year	$ 30.9	$ 30.3	$ 19.5
Interest cost on projected benefit obligation	49.8	43.9	40.1
Actual return on plan assets	(94.1)	(100.6)	(120.3)
Amortization and deferrals	44.1	61.3	82.0
Net pension expense	$ 30.7	$ 34.9	$ 21.3

Net pension expense increased in 1996 from 1995 as a result of a decrease in the discount rate from 8 1/2 percent to 7 1/4 percent and an increase in the number of plan participants.

The following table presents the funded status of the plans:

	1997	1996
	(MILLIONS)	
Actuarial present value of benefit obligations:		
Vested benefits	$507	$407
Non-vested benefits	42	37
Accumulated benefit obligations	549	444
Effect of projected salary increases	208	167
Projected benefit obligations	757	611
Assets at market value	736	637
Assets less than (in excess of) projected benefit obligations	21	(26)
Unrecognized net (loss) gain	(12)	37
Unrecognized prior-service cost	(6)	(8)
Unrecognized transition asset	3	3
Pension liability	$ 6	$ 6

The discount rate used to measure the present value of benefit obligations is 7 1/4 percent (7 1/2 percent in 1996); the assumed rate of increase in future compensation levels is 5 percent; and the expected long-term rate of return on assets is 10 percent. Plan assets consist primarily of commingled funds and assets held in a master trust. The master trust is comprised primarily of domestic and foreign common and preferred stocks, corporate bonds, United States government securities and commercial paper.

Subsequent to December 31, 1997, Williams offered an early retirement incentive program to a certain group of employees. This program will not have a material impact on the funded status of the plans or Williams' financial position.

Postretirement Benefits Other Than Pensions

Williams sponsors health care plans that provide postretirement medical benefits to retired Williams employees who were employed full time, hired prior to January 1, 1992 (January 1, 1996, for Transco Energy employees) and have met certain other requirements.

The plans provide for retiree contributions and contain other cost-sharing features such as deductibles and coinsurance. The accounting for the 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. A portion of the cost has been funded in trusts by Williams' FERC-regulated natural gas pipeline subsidiaries to the extent recovery from customers can be achieved. Plan assets consist of assets held in two master trusts and money market funds. One of the master trusts was previously described, and the other consists primarily of domestic and foreign common stocks, government bonds and commercial paper.

Net postretirement benefit expense consists of the following:

	1997	1996	1995
		(MILLIONS)	
Service cost for benefits earned during the year	$ 7.1	$ 6.4	$ 7.4
Interest cost on accumulated postretirement benefit obligation	24.4	22.7	23.9
Actual return on plan assets	(19.4)	(16.4)	(17.9)
Amortization of unrecognized transition obligation	4.1	5.0	5.0
Amortization and deferrals	21.0	19.7	23.1
Net postretirement benefit expense	$ 37.2	$ 37.4	$ 41.5

The following table presents the funded status of the plans:

	1997	1996
	(MILLIONS)	
Actuarial present value of postretirement benefit obligation:		
Retirees	$223	$200
Fully eligible active plan participants	34	26
Other active plan participants	126	89
Accumulated postretirement benefit obligation	383	315
Assets at market value	185	155
Assets less than accumulated postretirement benefit obligation	198	160
Unrecognized net gain	18	60
Unrecognized prior-service credit	4	1
Unrecognized transition obligation	(61)	(65)
Postretirement benefit liability	$159	$156

The amount of postretirement benefit costs deferred as a regulatory asset at December 31, 1997 and 1996, is $107 million and $118 million, respectively, and is expected to be recovered through rates over approximately 15 years.

The discount rate used to measure the present value of benefit obligations is 7 1/4 percent (7 1/2 percent in 1996). The expected long-term rate of return on plan assets is 10 percent (6 percent after taxes). The annual assumed rate of increase in the health care cost trend rate for 1998 is 8 1/2 to 9 1/2 percent, systematically decreasing to 5 percent by 2006. The health care cost trend rate assumption has a significant effect on the amounts reported. Increasing the assumed health care cost trend rate by 1 percent in each year would increase the aggregate of the service and interest cost components of postretirement benefit expense for the year ended December 31, 1997, by $5 million and the accumulated postretirement benefit obligation as of December 31, 1997, by $46 million.

Other

Williams maintains various defined-contribution plans covering substantially all employees. Company contributions are based on employees' compensation and, in part, match employee contributions. Company contributions are invested primarily in Williams common stock. Williams' contributions to these plans were $29 million in 1997, $23 million in 1996 and $19 million in 1995.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 11. INVENTORIES

	1997	1996
	(MILLIONS)	
Natural gas in underground storage:		
Transcontinental Gas Pipe Line (LIFO)	$ 38.3	$ 38.8
Energy Marketing & Trading	3.0	1.5
Other	16.5	--
Petroleum products:		
Energy Marketing & Trading	68.6	12.7
Other	30.1	33.7
Materials and supplies	140.3	112.0
Other	3.7	5.9
	$300.5	$204.6

If inventories valued on the LIFO method at December 31, 1997, were valued at current average cost, the amount would increase by approximately $13 million. Inventories valued on the LIFO method at December 31, 1996, approximate current average cost.

NOTE 12. PROPERTY, PLANT AND EQUIPMENT

	1997	1996
	(MILLIONS)	
Cost:		
Gas Pipelines:		
Central	$ 844.2	$ 787.4
Kern River Gas Transmission	1,003.9	990.5
Northwest Pipeline	1,478.6	1,447.9
Texas Gas Transmission	1,022.7	958.9
Transcontinental Gas Pipe Line	3,334.8	3,095.7
Energy Services:		
Energy Marketing & Trading	43.0	5.4
Exploration & Production	318.5	255.1
Field Services	2,352.4	2,188.3
Petroleum Services	1,055.2	1,073.1
Communications	535.0	257.3
Other	296.1	152.7
	12,284.4	11,212.3
Accumulated depreciation and depletion	(2,228.8)	(1,826.0)
	$10,055.6	$ 9,386.3

Commitments for construction and acquisition of property, plant and equipment are approximately $530 million at December 31, 1997.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13. 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 $92 million at December 31, 1997, and $95 million at December 31, 1996.

	1996	1997
	(MILLIONS)	
Accrued liabilities:		
Rate refunds	$ 337.5	$305.1
Employee costs	191.5	178.1
Interest	79.4	95.2
Income taxes payable	76.0	77.6
Taxes other than income taxes	72.4	66.2
Other	400.5	253.1
	$1,157.3	$975.3

NOTE 14. DEBT, LEASES AND BANKING ARRANGEMENTS

Notes Payable

During 1997, Williams Holdings of Delaware, Inc. (Williams Holdings) entered into a commercial paper program backed by new short-term bank-credit facilities totaling $650 million. At December 31, 1997, $645 million of commercial paper was outstanding under the program. In addition, Williams has entered into various other short-term credit agreements with amounts outstanding totaling $48 million and $269.5 million at December 31, 1997 and 1996, respectively. The weighted-average interest rate on the outstanding short-term borrowings at December 31, 1997 and 1996, was 6.56 percent and 7.85 percent, respectively.

Debt

	WEIGHTED-AVERAGE INTEREST RATE*	DECEMBER 31, 1997	DECEMBER 31, 1996
		(MILLIONS)	
The Williams Companies, Inc.			
Revolving credit loans	7.1%	$ 383.0	$ --
Debentures, 8.875% -- 10.25%, payable 2012, 2020, 2021 and 2025	8.6	137.0	587.5
Notes, 6.365% -- 9.625%, payable through 2004	7.0	994.7	817.5
Williams Gas Pipelines Central			
Variable rate notes, payable 1999	8.2	130.0	130.0
Kern River Gas Transmission			
Notes, 6.42% and 6.72%, payable through 2001	6.6	586.4	617.7
Northwest Pipeline			
Debentures, 7.125% -- 10.65%, payable through 2025	8.3	151.6	360.0
Notes, 6.625%, payable 2007	6.6	250.0	--
Adjustable rate notes, payable through 2002	9.0	8.3	10.0
Texas Gas Transmission			
Debentures, 7.25%, payable 2027	7.3	99.0	--
Notes, 9.625% and 8.625%, payable 1997 and 2004	8.6	152.4	253.6
Transcontinental Gas Pipe Line			
Revolving credit loans	6.3	160.0	--
Debentures, 7.25% and 9.125%, payable through 2026	7.3	199.7	352.4
Debentures, 7.08%, payable 2026 (subject to debtholder redemption in 2001)	7.1	200.0	200.0
Notes, 8.125% and 8.875%, payable 1997 and 2002	8.9	128.2	227.7
Adjustable rate note, payable 2002	5.8	150.0	--
Williams Holdings of Delaware			
Revolving credit loans	6.3	200.0	500.0
Debentures, 6.25%, payable 2006	4.8	248.9	248.8
Notes, 6.365% -- 6.91%, payable through 2002	6.7	258.6	--
Williams Pipe Line			
Notes, 8.95% and 9.78%, payable through 2001	9.0	40.0	100.0
Williams Energy Ventures			
Adjustable rate notes	--	--	25.6
Williams Communications Solutions, LLC			
Revolving credit loans	6.2	125.0	--
Other, payable through 2000	7.8	3.6	5.7
		4,606.4	4,436.5
Current portion of long-term debt		(41.1)	(59.6)
		$4,565.3	$4,376.9

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* At December 31, 1997, including the effects of interest-rate swaps.

In September 1997, Williams initiated a restructuring of its debt portfolio. As of December 31, 1997, Williams has redeemed approximately $1.3 billion of debt with stated interest rates in excess of 8.8 percent. In January 1998, Williams redeemed $40 million of additional debt obligations. The restructuring was temporarily financed with the combination of short-term bank agreements, commercial paper and Williams' existing bank-credit agreement, until new long-term debt securities were issued. During the fourth quarter of 1997, Williams issued $550 million of new long-term debt obligations. In January 1998, Williams issued approximately $700 million in additional debt obligations.

In July 1997, Williams entered into a new $1 billion bank-credit agreement, replacing the previous agreement. Under the new credit agreement, Northwest Pipeline, Transcontinental Gas Pipe Line, Texas Gas Transmission, and Williams Communications Solutions, LLC have access to various amounts of the facility, while Williams (parent) and Williams Holdings have access to all unborrowed amounts. Interest rates vary with current market conditions.

For financial statement reporting purposes at December 31, 1997, $560 million in notes payable and current debt obligations, primarily related to the restructuring noted above, have been classified as non-current obligations based on Williams' intent and ability to refinance on a long-term basis. Williams' subsequent issuance of $700 million of long-term debt obligations in January 1998 is sufficient to complete these refinancings.

Interest-rate swaps with a notional value of $450 million are currently being utilized to convert certain fixed rate debt obligations resulting in an effective weighted-average floating rate of 5.24 percent at December 31, 1997. Interest-rate swaps with a notional value of $130 million are currently being utilized to convert certain variable rate debt obligations resulting in an effective weighted-average fixed rate of 7.78 percent at December 31, 1997.

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.

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

	(MILLIONS)
1998	$ 40
1999	349
2000	251
2001	1,052
2002	1,512

Cash payments for interest (net of amounts capitalized) are as follows: 1997 -- $396 million; 1996 -- $347 million; and 1995 -- $266 million.

Leases

Future minimum annual rentals under non-cancelable operating leases are $113 million in 1998, $99 million in 1999, $84 million in 2000, $59 million in 2001, $55 million in 2002 and $176 million thereafter.

Total rent expense was $126 million in 1997 and $78 million in 1996 and 1995.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 15. STOCKHOLDERS' EQUITY

On November 20, 1997, the board of directors of Williams declared a two-for-one common stock split and distribution; 160.1 million shares were issued on December 29, 1997. All references in the financial statements and notes to the number of common shares outstanding and per-share amounts reflect the effect of the split.

In the third quarter of 1996, the board of directors authorized the open-market purchase of up to $800 million of Williams common stock. During 1996, 1.9 million shares were purchased at a total cost of approximately $31 million. No shares were purchased during 1997. In the fourth quarter of 1997, Williams' board of directors terminated the repurchase program.

In connection with the 1995 merger with Transco Energy, Williams exchanged all of Transco Energy's outstanding $3.50 cumulative convertible preferred stock for 2.5 million shares of Williams' $3.50 cumulative convertible preferred stock. These shares are redeemable by Williams beginning in November 1999, at an initial price of $51.40 per share. Each share of $3.50 preferred stock is convertible at the option of the holder into 4.6875 shares of Williams common stock. Dividends per share of $3.50 were recorded in 1997 and 1996, and $2.33 in 1995.

During 1995, Williams exchanged 2.8 million shares of its $2.21 cumulative preferred stock with a carrying value of $69 million for 9.6 percent debentures with a fair value of $72.5 million. The difference in the fair value of the new securities and the carrying value of the preferred stock exchanged was recorded as a decrease in capital in excess of par value. This amount did not impact net income, but is included in preferred stock dividends on the Consolidated Statement of Income and in the computation of earnings per share. The remaining shares of $2.21 cumulative preferred stock were redeemed by Williams at par ($25) in September 1997 for a total of $18.5 million. Dividends per share of $1.47 were recorded in 1997, and $2.21 in 1996 and 1995.

In 1996, the board of directors adopted a Stockholder Rights Plan (the Rights Plan). Under the Rights Plan, each outstanding share of 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, 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.

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. 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. Stock options generally become exercisable after five years, subject to accelerated vesting if certain future stock prices are achieved. Stock options expire 10 years after grant. At December 31, 1997, 46.7 million shares of common stock were reserved for issuance pursuant to existing and future stock awards, of which 21.4 million shares were available for future grants (15.6 million at December 31, 1996).

The following summary reflects stock option activity and related information for 1997 and 1996:

	1997		1996	
	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
	(OPTIONS IN MILLIONS)			
Outstanding -- beginning of year	19.7	$12.85	15.7	$10.02
Granted	6.7	24.83	8.2	16.71
Exercised	(3.8)	11.13	(4.0)	9.14
Canceled	(.3)	19.82	(.2)	21.01
Outstanding -- end of year	22.3	$16.66	19.7	$12.85
Exercisable at end of year	15.7	$13.21	10.9	$10.29
Weighted-average grant date fair value of options granted during the year		$ 5.98		$ 3.92

The following summary provides information about stock options outstanding and exercisable at December 31, 1997:

RANGE OF EXERCISE PRICES	STOCK OPTIONS OUTSTANDING: OPTIONS (MILLIONS)	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	STOCK OPTIONS EXERCISABLE: OPTIONS (MILLIONS)	WEIGHTED-AVERAGE EXERCISE PRICE
$4.62 to $17.32	15.4	$12.91	7.5 years	15.4	$12.91
$18.00 to $49.34	6.9	24.98	9.6 years	.3	28.14
Total	22.3	$16.66	8.1 years	15.7	$13.21

The fair value of the stock options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions: expected life of the stock options of five years; volatility of the expected market price of Williams common stock of 23 percent (24 percent in 1996 and 1995); risk-free interest rate of 6.1 percent (6.2 percent in 1996 and 1995); and a dividend yield of 2.4 percent (3 percent in 1996 and 1995).

Pro forma net income and earnings per share, assuming Williams had applied the fair-value method of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" in measuring compensation cost beginning with 1995 employee stock-based awards, are as follows:

	1997		1996		1995	
	PRO FORMA	REPORTED	PRO FORMA	REPORTED	PRO FORMA	REPORTED
Net income (millions)	$252.8	$271.4	$359.9	$362.3	$1,306.1	$1,318.2
Earnings per share:						
Basic	$ .76	$ .81	$ 1.10	$ 1.10	$ 4.26	$ 4.30
Diluted	$ .74	$ .80	$ 1.07	$ 1.07	$ 4.13	$ 4.17

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Pro forma amounts for 1997 include the remaining total compensation expense from the awards made in 1996, as these awards fully vested in 1997 as a result of the accelerated vesting provisions. Pro forma amounts for 1995 include total compensation expense from the awards made in 1995, as these awards fully vested in 1995 as a result of the accelerated vesting provisions. Since compensation expense from stock options is recognized over the future years' vesting period, and additional awards generally are made each year, pro forma amounts may not be representative of future years' amounts.

NOTE 16. 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.

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: Fair value is estimated to approximate historically recorded amounts as the operations underlying these investments are in their initial phases.

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, 1997 and 1996, 57 percent and 69 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.

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.

Interest-rate locks: Fair value is determined using year-end traded market prices for the referenced U.S. Treasury securities underlying the contracts. Fair value was calculated by the financial institutions that are parties to the locks.

Energy-related trading and hedging: Includes forwards, options, swaps and purchase and sales commitments. Fair value reflects management's best estimate of market prices considering various factors including closing exchange and over-the-counter quotations, liquidity of the market in which the contract is transacted, the terms of the contract, credit considerations, time value and volatility factors underlying the positions.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Carrying amounts and fair values of Williams' financial instruments

ASSET (LIABILITY)	1997 CARRYING AMOUNT	1997 FAIR VALUE	1996 CARRYING AMOUNT	1996 FAIR VALUE
	(MILLIONS)			
Cash and cash equivalents	$ 81.3	$ 81.3	$ 115.3	$ 115.3
Notes and other non-current receivables	32.5	32.5	27.4	27.4
Investments -- cost	102.8	102.8	71.2	71.2
Notes payable	(693.0)	(693.0)	(269.5)	(269.5)
Long-term debt, including current portion	(4,605.4)	(4,693.0)	(4,435.1)	(4,594.4)
Interest-rate swaps	(51.1)	(46.8)	(54.8)	(63.7)
Interest-rate locks	--	(8.3)	--	--
Energy-related trading:				
Assets	324.9	324.9	253.6	253.6
Liabilities	(383.7)	(383.7)	(339.1)	(339.1)
Energy-related hedging:				
Assets	.9	11.0	.9	11.2
Liabilities	--	(3.6)	(1.3)	(12.2)

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

The 1997 average fair value of the energy-related trading assets and liabilities is $258 million and $345 million, respectively. The 1996 average fair value of the energy-related trading assets and liabilities is $196 million and $322 million, respectively.

Williams has recorded liabilities of $21 million and $18 million at December 31, 1997 and 1996, respectively, 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 their accounts receivables. Williams also sold certain receivables in 1996 under another revolving receivable sales program. At December 31, 1997 and 1996, $343 million and $152 million have been sold, respectively.

In connection with the sale of Williams' network services operations, Williams has been indemnified by LDDS against any losses related to retained guarantees of $135 million and $158 million at December 31, 1997 and 1996, respectively, for lease rental obligations.

Williams has issued other guarantees and letters of credit with off-balance-sheet risk that total approximately $56 million and $10 million at December 31, 1997 and 1996, 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.

Commodity Price-Risk Management Services

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 financial instruments, 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 $125.8 million, $99.2 million and $65.8 million in 1997, 1996 and 1995, respectively.

Energy Marketing & Trading enters into forward contracts and purchase and sale commitments which involve physical delivery of an energy commodity. Prices under these contracts are both fixed and variable. 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. The variable prices are generally based on either industry pricing publications or exchange quotations. Energy Marketing & Trading buys and sells option contracts which give the buyer the right to exercise the options and receive the difference between a predetermined strike price and a market price at the date of exercise. The market prices used for option contracts are generally exchange quotations. 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, and changes in interest rates and credit risk.

Energy Marketing & Trading manages market risk 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:

	1997		1996	
	PAYOR	RECEIVER	PAYOR	RECEIVER
Fixed price:				
Natural gas (TBtu)	1,327.9	1,702.5	1,066.6	1,196.8
Refined products and crude (MMBbls)	337.2	230.7	34.4	26.3
Power (Terawatt Hrs)	20.0	16.7	--	--
Variable price:				
Natural gas (TBtu)	2,091.1	1,508.2	1,584.9	1,123.8
Refined products and crude (MMBbls)	4.5	3.1	3.7	3.3
Power (Terawatt Hrs)	.2	2.1	--	--

The net cash flow requirement related to these contracts at December 31, 1997 and 1996, was $92 million and $117 million, respectively. At December 31, 1997, the cash flow requirements extend primarily through 2007.

Concentration of Credit Risk

Williams' cash equivalents 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 financial institution.

At December 31, 1997 and 1996, approximately 57 percent and 69 percent, respectively, of receivables are for the sale or transportation of natural gas and related products or services. Approximately 33 percent and 23 percent of receivables at December 31, 1997 and 1996, respectively, are for communications 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. Communications' customers include numerous corporations. As a general policy, collateral is not required for receivables, but customers' financial condition and credit worthiness are evaluated regularly.

NOTE 17. OTHER FINANCIAL INFORMATION

Intercompany revenues (at prices that generally apply to sales to unaffiliated parties) are as follows:

	1997	1996	1995
		(MILLIONS)	
Gas Pipelines:			
Central	$ 6.1	$ 9.2	$ 9.5
Northwest Pipeline	2.8	1.1	1.8
Texas Gas Transmission	7.6	20.5	37.7
Transcontinental Gas Pipe Line	40.5	34.6	34.2
Energy Services:			
Energy Marketing & Trading*	(47.1)	130.7	62.2
Exploration & Production	126.5	57.1	4.9
Field Services	32.3	26.2	14.0
Petroleum Services	81.6	67.7	44.6
Other	12.6	9.3	.2
	$262.9	$356.4	$209.1

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

Information for business segments is as follows:

	1997	1996	1995
		(MILLIONS)	
Identifiable assets at December 31:			
Gas Pipelines:			
Central	$ 854.9	$ 704.8	$ 709.2
Kern River Gas Transmission	1,083.0	1,081.6	--
Northwest Pipeline	1,161.3	1,153.9	1,147.5
Texas Gas Transmission	1,162.1	1,132.2	1,151.8
Transcontinental Gas Pipe Line	3,413.9	3,305.4	3,159.5
Energy Services:			
Energy Marketing & Trading	725.1	839.1	438.2
Exploration & Production	247.1	200.3	164.6
Field Services	2,038.4	1,995.0	1,939.3
Petroleum Services	904.6	906.5	863.2
Communications	1,312.9	670.6	401.0
Investments	291.4	190.6	307.6
General corporate and other	684.3	238.8	279.3
Consolidated	$13,879.0	$12,418.8	$10,561.2

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

	1997	1996	1995
		(MILLIONS)	
Additions to property, plant and equipment:			
Gas Pipelines:			
Central	$ 60.4	$ 50.9	$ 43.5
Kern River Gas Transmission	15.3	4.7	--
Northwest Pipeline	44.4	62.8	130.5
Texas Gas Transmission	74.5	50.1	32.1
Transcontinental Gas Pipe Line	224.8	272.1	238.7
Energy Services:			
Energy Marketing & Trading	37.6	.6	.4
Exploration & Production	63.3	30.3	15.6
Field Services	158.8	205.7	232.1
Petroleum Services	45.0	55.8	87.9
Communications	276.3	66.9	32.4
General corporate and other	161.7	19.0	14.3
Consolidated	$ 1,162.1	$ 818.9	$ 827.5
Depreciation, depletion and amortization:			
Gas Pipelines:			
Central	$ 28.0	$ 27.5	$ 27.3
Kern River Gas Transmission	17.8	15.5	--
Northwest Pipeline	55.2	43.2	34.9
Texas Gas Transmission	42.5	41.5	38.9
Transcontinental Gas Pipe Line	129.5	113.7	109.1
Energy Services:			
Energy Marketing & Trading	.7	.6	1.2
Exploration and Production	12.6	10.5	9.8
Field Services	102.7	94.7	100.4
Petroleum Services	35.0	34.1	26.4
Communications	66.8	30.9	20.3
General corporate and other	8.7	8.8	7.2
Consolidated	$ 499.5	$ 421.0	$ 375.5

Identifiable assets are gross assets used by a business segment, including an allocated portion of assets used jointly by more than one business segment. Items such as investments are considered to be general corporate assets rather than identifiable assets of individual business segments.

NOTE 18. 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. As to Williams Pipe Line, revenues collected subject to refund were $328 million at December 31, 1997; it is not expected that the amount of any refunds ordered would be significant. Accordingly, no portion of these revenues has been reserved for refund. As to the other pipelines, $337 million of revenues has been reserved for potential refund as of December 31, 1997.

In 1997, the Federal Energy Regulatory Commission (FERC) issued orders addressing, among other things, the authorized rates of return for three of Williams' interstate natural gas pipeline subsidiaries. All of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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. In October 1997, the FERC voted not to reconsider an order issued in one of the three pipeline proceedings, but convened a conference on January 30, 1998, to consider, on an industry-wide basis, issues with respect to pipeline rates of return.

In 1992, the FERC issued Order 636, Order 636-A and Order 636-B. These orders, which were challenged in various respects by various parties in proceedings ruled on by the U.S. Court of Appeals for the D.C. Circuit, require interstate gas pipeline companies to change the manner in which they provide services. Williams' gas pipelines subsidiaries implemented restructurings in 1993. Certain aspects of three of its pipeline companies' restructurings are under appeal.

On July 16, 1996, the U.S. Court of Appeals for the D.C. Circuit issued an order which in part affirmed and in part remanded Order 636. However, the court stated that Order 636 would remain in effect until FERC issued a final order on remand after considering the remanded issues. With the issuance of this decision, the stay on the appeals of individual pipeline's restructuring cases was lifted. The only appeal challenging Northwest Pipeline's restructuring has been dismissed. On February 27, 1997, the FERC issued Order No. 636-C which dealt with the six issues remanded by the D.C. Circuit. In that order, the FERC reaffirmed that pipelines should be exempt from sharing gas supply realignment costs. Requests for rehearing have been filed for the order.

Contract reformations and gas purchase deficiencies

As a result of FERC Order 636, which requires interstate gas pipelines to change the way they do business, 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.

Current FERC policy associated with Orders 436 and 500 requires interstate gas pipelines to absorb some of the cost of reforming gas supply contracts before allowing any recovery through direct bill or surcharges to transportation as well as sales commodity rates. Under Orders 636, 636-A, 636-B and 636-C, costs incurred to comply with these rules are permitted to be recovered in full, although a percentage of such costs must be allocated to interruptible transportation service.

Pursuant to a stipulation and agreement approved by the FERC, Williams Gas Pipelines Central (Central) has made 11 filings to direct bill take-or-pay and gas supply realignment costs. The total amount approved for direct billing, net of certain amounts collected subject to refunds, is $67 million. An intervenor has filed protests seeking to have the FERC review the prudence and eligibility of approximately $40 million of costs covered by these filings. On July 31, 1996, the administrative law judge issued an initial decision rejecting the intervenor's prudency challenge. On September 30, 1997, the FERC, by a two-to-one vote, reversed the administrative law judge and determined that three life-of-lease producer contracts were imprudently entered into in 1982. Central has filed for rehearing, and management plans to vigorously defend the prudency of these contracts. An intervenor has also filed a protest seeking to have the FERC decide whether non-settlement costs are eligible for recovery under Order No. 636. In January 1997, the FERC held that none of the non-settlement costs could be recovered by Central if these costs were not eligible for recovery under Order No. 636. This order was affirmed on rehearing in April 1997. An initial decision from the administrative law judge is expected in the first quarter of 1998. If the FERC's final ruling on eligibility is unfavorable, Central will appeal these orders to the courts. Central will make additional filings under the applicable FERC orders to recover such additional costs as may be incurred in the future.

Because of the uncertainties pertaining to the outcome of these issues currently pending at the FERC and the status of settlement negotiation and various other factors, Central cannot reasonably estimate the costs that may be incurred nor the related amounts that could be recovered from customers. Central is actively pursuing negotiations with the producers to resolve all outstanding obligations under the contracts. Based on the terms of what Central believes would be a reasonable settlement, $94 million has been accrued as a liability at December 31, 1997, including a $5 million fourth-quarter 1997 charge to expense for additional absorption of future costs. Central also has an $88 million regulatory asset at December 31, 1997, for estimated recovery of future costs from customers. Central cannot predict the final outcome of the FERC's rulings on contract prudency and cost recovery under Order No. 636 and is unable to determine the ultimate liability and loss, if any, at this time. If Central does not prevail in these FERC proceedings or any subsequent appeals, and if Central is able to reach a settlement with the producers consistent with the $94 million accrued liability, the loss could be the total of the regulatory asset and the $40 million of protested assets. Central continues to believe that it entered into the gas purchase contracts in a prudent manner under FERC rules in place at the time. Central also believes that the future recovery of these costs would be in accordance with the terms of Order No. 636.

In September 1995, Texas Gas received FERC approval of a settlement regarding Texas Gas' recovery of gas supply realignment costs. Through December 31, 1997, Texas Gas has paid approximately $76 million and expects to pay no more than $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.

The foregoing accruals are in accordance with Williams' accounting policies regarding the establishment of such accruals which take into consideration estimated total exposure, as discounted and risk-weighted, as well as costs and other risks associated with the difference between the time costs are incurred and the time such costs are recovered from customers. The estimated portion of such costs recoverable from customers is deferred or recorded as a regulatory asset based on an estimate of expected recovery of the amounts allowed by FERC policy. While Williams believes that these accruals are adequate and the associated regulatory assets are appropriate, costs actually incurred and amounts actually recovered from customers will depend upon the outcome of various court and FERC proceedings, the success of settlement negotiations and various other factors, not all of which are presently foreseeable.

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, 1997, these subsidiaries had reserves totaling approximately $28 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 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, 1997, Central had recorded a liability for approximately $17 million, representing the current estimate of future environmental cleanup costs to be incurred over the next six to ten years. The Field Services unit of Energy Services had recorded an aggregate liability of approximately $12 million, representing the current estimate of its future environmental and remediation costs, including approximately $5 million relating to former Central facilities. Texas Gas and Transcontinental Gas Pipe Line likewise had recorded liabilities for these costs which are included in the $28 million reserve 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 pending recovery as incurred through future rates and other means.

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. Such costs have exceeded this amount. At December 31, 1997, Williams had approximately $11 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.

A lawsuit was filed in May 1993 in a state court in Colorado in which certain claims have been made against various defendants, including Northwest Pipeline, contending that gas exploration and development activities in portions of the San Juan Basin have caused air, water and other contamination. The plaintiffs in the case sought certification of a plaintiff class. In June 1994, the lawsuit was dismissed for failure to join an indispensable party over which the state court had no jurisdiction. The Colorado court of appeals has affirmed the dismissal and remanded the case to Colorado district court for action consistent with the appeals court's decision. Since June 1994, eight individual lawsuits have been filed against Northwest Pipeline and others in U.S. district court in Colorado, making essentially the same claims. The district court has stayed all of the cases involving Northwest Pipeline until the plaintiffs exhaust their remedies before the Southern Ute Indian Tribal Court. Some plaintiffs filed cases in the Tribal court, but none named Northwest Pipeline as a defendant.

Other legal matters

In 1991, the Southern Ute Indian Tribe (the Tribe) filed a lawsuit against Williams Production Company (Williams Production), a wholly-owned subsidiary of Williams, and other gas producers in the San Juan Basin area, alleging that certain coal strata were reserved by the United States for the benefit of the Tribe and that the extraction of coal-seam gas from the coal strata was wrongful. The Tribe seeks compensation for the value of the coal-seam gas. The Tribe also seeks an order transferring to the Tribe ownership of all of the defendants' equipment and facilities utilized in the extraction of the coal-seam gas. In September 1994, the court granted summary judgment in favor of the defendants and the Tribe lodged an interlocutory appeal with the U.S. Court of Appeals for the Tenth Circuit. Williams Production agreed to indemnify the Williams Coal Seam Gas Royalty Trust (Trust) against any losses that may arise in respect of certain properties subject to the lawsuit. In addition, if the Tribe is successful in showing that Williams Production has no rights in the coal-seam gas, Williams Production has agreed to pay to the Trust for distribution to then-current unitholders, an amount representing a return of a portion of the original purchase price paid for the units. On July 16, 1997, the U.S. Court of Appeals for the Tenth Circuit reversed the decision of the district court, held that the Tribe owns the coal-seam gas produced from certain coal strata on fee lands within the exterior boundaries of the Tribe's reservation, and remanded the case to the district court for further proceedings. On September 16, 1997, Amoco Production Company, the class representative for the defendant class (of which Williams Production is a part), filed its motion for rehearing en banc before the Court of Appeals. On December 4, 1997, the Tenth Circuit Court of Appeals agreed to rehear the appeal.

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. In one of the two remaining cases, a jury verdict found that Transcontinental Gas Pipe Line was required to pay to a producer damages of $23.3 million including $3.8 million in attorneys' fees. Transcontinental Gas Pipe Line is considering an appeal. In the other remaining case, a producer has asserted damages, including interest calculated through December 31, 1996, 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 November 1994, Continental Energy Associates Limited Partnership (the Partnership) filed a voluntary petition under Chapter 11 of the Bankruptcy Code with the U.S. Bankruptcy Court, Middle District of Pennsylvania. The Partnership owned a cogeneration facility in Hazleton, Pennsylvania (the Facility). Hazleton Fuel Management Company (HFMC), a subsidiary of Transco Energy, formerly supplied natural gas and fuel oil to the Facility. Pursuant to a court-approved Plan of Reorganization, all litigation involving HFMC has been fully settled, and HFMC received $6.3 million from the bankruptcy estate, leaving it with approximately $14 million of outstanding receivables, all of which have been fully reserved.

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 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.

19. MAPCO ACQUISITION

On November 24, 1997, Williams and MAPCO Inc. announced that they had entered into a definitive merger agreement whereby Williams would acquire MAPCO by exchanging 1.665 shares of Williams common stock for each outstanding share of MAPCO common stock. In addition, outstanding MAPCO employee stock options would be converted into Williams common stock. Approximately 96.8 million shares of Williams common stock valued at approximately $2.8 billion, based on the closing market price of Williams common stock on December 31, 1997, would be issued in the transaction. The transaction, subject to approval by both Williams and MAPCO stockholders and to review under federal anti-trust laws, is expected to close during the first quarter of 1998. MAPCO is engaged in the NGL pipeline, petroleum refining and marketing and propane marketing businesses, and will become part of the Energy Services business unit.

The merger will be accounted for as a pooling of interests. Anticipated changes in accounting methods as a result of the merger are not expected to have a material impact on the financial position or results of operations of the combined entity.

The following unaudited pro forma information combines the results of operations of Williams and MAPCO as if the companies had been combined throughout the periods presented.

	YEARS ENDED DECEMBER 31,		
	1997	1996	1995
	(MILLIONS, EXCEPT PER-SHARE AMOUNTS)		
Revenues	$8,241.6	$6,842.9	$5,655.0
Income from continuing operations	458.6	492.5	363.6
Net income	373.2	459.8	1,392.9
Basic earnings per common share:			
Income from continuing operations	1.09	1.16	.87
Net income	.88	1.08	3.43
Diluted earnings per common share:			
Income from continuing operations	1.06	1.14	.86
Net income	.86	1.06	3.35

Pro forma financial information is not necessarily indicative of results of operations that would have occurred if the companies had been combined throughout the periods presented or of future results of operations of the combined companies.

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QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data are as follows (millions, except per-share amounts). Per-share amounts reflect the effect of the two-for-one common stock split and distribution (see Note 15) and the adoption of SFAS No. 128.

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
1997				
Revenues	$1,001.4	$1,020.6	$1,121.0	$1,266.6
Costs and operating expenses	581.3	625.1	705.3	752.8
Income before extraordinary loss	105.9	107.8	65.3	71.5
Net income (loss)	105.9	107.8	(8.4)	66.1
Basic earnings per common share:				
Income before extraordinary loss	.32	.33	.20	.21
Net income (loss)	.32	.33	(.03)	.19
Diluted earnings per common share:				
Income before extraordinary loss	.31	.32	.19	.21
Net income (loss)	.31	.32	(.03)	.19
1996				
Revenues	$ 893.7	$ 837.5	$ 842.2	$ 957.8
Costs and operating expenses	499.4	493.9	509.3	561.5
Net income	104.9	80.4	71.0	106.0
Basic earnings per common share	.32	.24	.21	.32
Diluted earnings per common share	.31	.24	.21	.31

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.

Second-quarter 1997 net income includes a $44.5 million gain related to the combination of Williams' and Nortel's customer-premise equipment sales and service business (see Note 2 of Notes to Consolidated Financial Statements). Third-quarter 1997 net income includes an extraordinary loss of $74 million related to the restructuring of Williams' debt portfolio (see Note 8 of Notes to Consolidated Financial Statements).

Second-quarter 1996 net income includes recognition of favorable income tax adjustments totaling $10 million related to research credits and previously provided deferred income taxes on certain regulated capital projects. Third-quarter 1996 net income includes approximately $6 million, net of federal income tax effect, from the effects of state income tax adjustments related to 1995.

Selected comparative fourth-quarter data are as follows (millions, except per-share amounts).

	1997	1996
Operating profit:		
Gas Pipelines:		
Central	$ 5.6	$ 10.9
Kern River Gas Transmission	29.7	29.3
Northwest Pipeline	29.5	21.8
Texas Gas Transmission	32.1	29.5
Transcontinental Gas Pipe Line	63.4	61.0
Energy Services:		
Energy Marketing & Trading	42.0	13.6
Exploration & Production	10.2	3.7
Field Services	33.5	56.3
Petroleum Services	33.9	18.3
Communications	(51.8)	.6
Other	2.8	(2.9)
Total operating profit	230.9	242.1
General corporate expenses	(18.7)	(11.6)
Interest expense net	(97.4)	(91.9)
Investing income	7.4	4.1
Gain on sale of asset	--	15.7
Minority interest in income of consolidated subsidiaries	(4.5)	--
Other income (expense) net	(1.8)	8.0
Income before income taxes	115.9	166.4
Provision for income taxes	44.4	60.4
Income before extraordinary loss	71.5	106.0
Extraordinary loss	(5.4)	--
Net income	$ 66.1	$106.0
Basic earnings per common share	$ .19	$ .32
Diluted earnings per common share	$ .19	$ .31

Communications' fourth-quarter 1997 operating profit includes charges totaling approximately $49.8 million, related to the decision to sell the learning content business, the write-down of assets and the development costs associated with advanced applications. In addition, 1997 general corporate expenses include approximately $5 million in costs related to the MAPCO acquisition (see Note 19 of Notes to Consolidated Financial Statements).

Field Services' fourth-quarter 1996 operating profit includes a gain of approximately $20 million from the property insurance coverage associated with construction of replacement gathering facilities. In addition, 1996 segment operating profit and general corporate expenses together include approximately $10 million related to an all-employee bonus that was linked to achieving record financial performance. In fourth-quarter 1996, Williams recognized a pre-tax gain of $15.7 million from the sale of certain communication rights.

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

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 II -- VALUATION AND QUALIFYING ACCOUNTS(a)

		ADDITIONS			
	BEGINNING BALANCE	CHARGED TO COSTS AND EXPENSES	OTHER(C)	DEDUCTIONS(B)	ENDING BALANCE
			(MILLIONS)		
Allowance for doubtful accounts:					
1997	$ 9.7	$8.8	$7.8	$7.0	$19.3
1996	11.3	4.1	1.3	7.0	9.7
1995	7.9	3.8	1.6	2.0	11.3

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(a) Deducted from related assets.

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

(c) 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 1998 (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

There is no information regarding certain relationships and related transactions required by Item 404 of Regulation S-K to be reported.

PART IV

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

(a) 1 and 2. The financial statements and schedule 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 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 the Company's 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.

*(e) Certificate of Designation with respect to the $3.50 Cumulative Convertible Preferred Stock (filed as Exhibit 3.1(c) to the Prospectus and Information Statement to Amendment No. 2 to the Registration Statement on Form S-4, filed March 30, 1995).

*(f) 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).

(g) Certificate of Increase of Authorized Number of Shares of Series A Junior Participating Preferred Stock, dated December 31, 1997.

*(h) 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).

*(i) By-laws of Williams, as amended (filed, as amended, as Exhibit 3 to Form 10-Q for the quarter ended September 30, 1996).

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; the 8 1/4% Notes, due 1998; 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) Form of Subordinated Debt Indenture between the Company and Chase Manhattan Bank (formerly Chemical Bank), Trustee, relating to 9.60% Quarterly Income Capital Securities, due 2025 (filed as Exhibit 4.2 to Form S-3 Registration Statement No. 33-60397, filed June 20, 1995).

(c) U.S. $1,000,000,000 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.

*(d) Form of Senior Debt Indenture between the Company and The First National Bank of Chicago, Trustee, relating to 6.50% Notes due 2002; 6.625% Notes due 2004; floating rate notes due 2000; 6 1/8% Notes due 2001; 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).

*(e) 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).

*(f) 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).

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).

Exhibit 11 -- Computation of Earnings Per Common and Common-equivalent Share.

Exhibit 12 -- Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividend Requirements.

Exhibit 20 -- Definitive Proxy Statement of Williams for 1998 (as filed with the Commission on March 27, 1998).

Exhibit 21 -- Subsidiaries of the registrant.

Exhibit 23 -- Consent of Independent Auditors.

Exhibit 24 -- Power of Attorney together with certified resolution.

Exhibit 27 -- Financial Data Schedule.

Exhibit 27.1 -- Restated Financial Data Schedule for the year ended December 31, 1996.

Exhibit 27.2 -- Restated Financial Data Schedule for the year ended December 31, 1995.

(b) Reports on Form 8-K.

On October 29, 1997, the Company filed a report on Form 8-K to report the results of the Company's debt tender offer.

On November 15, 1997, the Company filed a report on Form 8-K/A to report the results of the Company's debt tender offer.

On November 27, 1997, the Company filed a report on Form 8-K to report the Company's execution of an Agreement and Plan of Merger, dated November 23, 1997, among the Company, MAPCO Inc., and TML Acquisition Corp., providing for the Company to acquire MAPCO, Inc.

(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.

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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.

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: March 30, 1998

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/ 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/ ROBERT J. LAFORTUNE* Robert J. LaFortune	Director
/s/ JAMES C. LEWIS* James C. Lewis	Director
/s/ JACK A. MACALLISTER* Jack A. MacAllister	Director

SIGNATURE	TITLE
/s/ PETER C. MEINIG* Peter C. Meinig	Director
/s/ KAY A. ORR* Kay A. Orr	Director
/s/ GORDON R. PARKER* Gordon R. Parker	Director
/s/ JOSEPH H. WILLIAMS* Joseph H. Williams	Director
By: /s/ SHAWNA L. GEHRES Shawna L. Gehres Attorney-in-fact	

Dated: March 30, 1998

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
3(d)	-- Certificate of Amendment of Restated Certificate of Incorporation
3(g)	-- Certificate of Increase of Authorized Number of Shares of Series A Junior Participating Preferred Stock
4(c)	-- Amended Restated Credit Agreement
11	-- Computation of Earnings Per Common and Common-equivalent Share.
12	-- Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividend Requirements.
21	-- Subsidiaries of the registrant.
23	-- Consent of Independent Auditors.
24	-- Power of Attorney together with certified resolution.
27	-- Financial Data Schedule.
27.1	-- Restated Financial Data Schedule for the year ended December 31, 1996.
27.2	-- Restated Financial Data Schedule for the year ended December 31, 1995.

EXHIBIT 3(d)

CERTIFICATE OF AMENDMENT

OF

RESTATED CERTIFICATE OF INCORPORATION, AS AMENDED

* * * * * * * *

THE WILLIAMS COMPANIES, INC., a corporation organized and existing under and by virtue of the General Corporation Law of Delaware, DOES HEREBY CERTIFY:

FIRST: That the Board of Directors of The Williams Companies, Inc., at a meeting of the Board of Directors duly called and held on November 23, 1997, adopted a resolution proposing and declaring advisable the following amendment to the Restated Certificate of Incorporation, as amended, of said Company:

RESOLVED that the Board of Directors of the Company hereby declares it advisable to amend Article FOURTH of the Company's Restated Certificate of Incorporation, as amended, to increase the authorized Common Stock, $1.00 par value, so that, as amended, the first paragraph of Article FOURTH shall be, and read, as follows:

"FOURTH: The total number of shares of capital stock which the Company shall have authority to issue is 990,000,000 shares, consisting of 960,000,000 shares of Common Stock, par value $1.00 per share (the "Common

Stock") and 30,000,000 shares of Preferred Stock, par value $1.00 per share (the "Preferred Stock")."

SECOND: That the aforesaid amendment was duly adopted in accordance with the applicable provisions of Section 242 of the General Corporation Law of Delaware.

IN WITNESS WHEREOF, The Williams Companies, Inc. has caused this Certificate to be signed by William G. von Glahn, its Senior Vice President and General Counsel, and attested by David M. Higbee, its Secretary, this 26th day of February, 1998.

THE WILLIAMS COMPANIES, INC.

By: /s/ WILLIAM G. VON GLAHN

William G. von Glahn
Senior Vice President and
General Counsel

ATTEST:

By: /s/ DAVID M. HIGBEE

David M. Higbee
Secretary

EXHIBIT 3(g)

THE WILLIAMS COMPANIES, INC.

CERTIFICATE OF INCREASE
OF AUTHORIZED NUMBER OF SHARES
OF SERIES A JUNIOR
PARTICIPATING PREFERRED STOCK
PURSUANT TO SECTION 151 OF THE
GENERAL CORPORATION LAW OF THE
STATE OF DELAWARE

The Williams Companies, Inc., a corporation organized and existing under the General Corporation Law of Delaware,

DOES HEREBY CERTIFY:

FIRST: That the Restated Certificate of Incorporation of said Corporation was filed in the office of the Secretary of State of Delaware on April 27, 1987, and was filed for recording in the office of the Recorder of Deeds of New Castle County, Delaware, on April 27, 1987, and the Certificate of the Designations, Preferences and Rights of the Series A Junior Participating Preferred Stock was included in said Restated Certificate of Incorporation.

SECOND: That Certificates of Increase of Authorized Number of Shares of Series A Junior Participating Preferred Stock were filed in the office of the Secretary of State of Delaware on February 7, 1989, and February 6, 1996, respectively, and were filed for recording in the office of the Recorder of Deeds of New Castle County, Delaware, on February 7, 1989, and February 6, 1996, respectively.

THIRD: That the Board of Directors of said Corporation at a meeting held on November 23, 1997, duly adopted a resolution authorizing and directing an increase in the authorized number of shares of Series A Participating Preferred Stock of the Corporation, from 1,200,000 shares to 1,600,000 shares.

IN WITNESS WHEREOF, said The Williams Companies, Inc. has caused this certificate to be signed by Gary R. Belitz, its Controller and Chief Accounting Officer, and attested by David M. Higbee, its Secretary, this 30th day of December, 1997.

THE WILLIAMS COMPANIES, INC.

CORPORATE SEAL

By: /s/ GARY R. BELITZ

Name: Gary R. Belitz
Title: Controller and Chief Accounting Officer

ATTEST:

/s/ DAVID M. HIGBEE
- - ----------------------------------
Name: David M. Higbee
Title: Secretary

EXHIBIT 4(c)

U.S. $1,000,000,000

SECOND AMENDED AND RESTATED CREDIT AGREEMENT

Dated as of July 23, 1997

Among

THE WILLIAMS COMPANIES, INC.
NORTHWEST PIPELINE CORPORATION
TRANSCONTINENTAL GAS PIPE LINE CORPORATION
TEXAS GAS TRANSMISSION CORPORATION
WILLIAMS PIPE LINE COMPANY
WILLIAMS HOLDINGS OF DELAWARE, INC.
WILTEL COMMUNICATIONS, LLC

as Borrowers

THE BANKS NAMED HEREIN

as Banks

and

CITIBANK, N.A.

as Agent

Co-Agents:

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION
BANK OF MONTREAL
CREDIT LYONNAIS NEW YORK BRANCH
THE CHASE MANHATTAN BANK
CIBC INC.
THE FIRST NATIONAL BANK OF CHICAGO
ROYAL BANK OF CANADA

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ARTICLE V

COVENANTS OF THE BORROWERS

ARTICLE VI

EVENTS OF DEFAULT

ARTICLE VII

THE AGENT

ARTICLE VIII

MISCELLANEOUS

SECOND AMENDED AND RESTATED CREDIT AGREEMENT

Dated as of July 23, 1997

This Second Amended and Restated Credit Agreement dated as of July 23, 1997, is by and among the Borrowers, the Agent and the Banks. In consideration of the mutual covenants and agreements contained herein, the Borrowers, the Agent and the Banks hereby agree as set forth herein.

PRELIMINARY STATEMENTS

1. The Borrowers, the Agent and certain of the Banks are parties to the Amended and Restated Credit Agreement dated as of December 20, 1996 (the "1996 Credit Agreement").

2. The Borrowers have requested that the 1996 Credit Agreement be further amended and, as so further amended, be restated in its entirety, and the parties hereto have agreed to do so on the terms and conditions set forth herein.

3. The parties hereto have agreed to restate the 1996 Credit Agreement in its entirety for convenience, and this Second Amended and Restated Credit Agreement constitutes for all purposes an amendment to the 1996 Credit Agreement, and each reference to an Advance or Borrowing herein shall include each advance or borrowing made heretofore under the 1996 Credit Agreement as well as each Advance or Borrowing made hereafter under this Agreement.

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

Section 1.01. Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"A Advance" means an advance by a Bank to a Borrower as part of an A Borrowing and refers to a Base Rate Advance or a Eurodollar Rate Advance, each of which shall be a "Type" of A Advance.

"A Borrowing" means a borrowing consisting of simultaneous A Advances of the same Type to the same Borrower made by each of the Banks pursuant to Section 2.01.

"A Note" means a promissory note of a Borrower payable to the order of any Bank, in substantially the form of Exhibit A-1 hereto, evidencing the aggregate indebtedness of such Borrower to such Bank resulting from the A Advances to such Borrower owed to such Bank.

"Advance" means an A Advance or a B Advance.

"Agent" means Citibank, N.A. in its capacity as agent pursuant to Article VII hereof and any successor Agent pursuant to Section 7.06.

"Agreement" means this Second Amended and Restated Credit Agreement dated as of July 23, 1997, among the Borrowers, the Agent and the Banks, as amended or modified from time to time.

"Applicable Commitment Fee Rate" means the rate per annum set forth on Schedule XI under the heading "Applicable Commitment Fee Rate" for the relevant Rating Category applicable to TWC from time to time. The Applicable Commitment Fee Rate shall change when and as the relevant Rating Category applicable to TWC changes.

"Applicable Lending Office" means, with respect to each Bank, such Bank's Domestic Lending Office in the case of a Base Rate Advance and such Bank's Eurodollar Lending Office in the case of a Eurodollar Rate Advance and, in the case of a B Advance, the office of such Bank notified by such Bank to the Agent as its Applicable Lending Office with respect to such B Advance.

"Applicable Margin" means

(i) as to any Eurodollar Rate Advance to any Borrower (other than WPL during such times as WPL is Unrated and WilTel during such times as WilTel is Unrated), the rate per annum set forth in Schedule XI under the heading "Applicable Margin" for the relevant Rating category applicable to such Borrower from time to time;

(ii) for each day during such times as WPL is Unrated, as to any Eurodollar Rate Advance to WPL, the rate per annum set forth in the following table for the relevant amount of the Applicable WPL Debt to TNW Ratio for such day:

Applicable WPL Debt to TNW Ratio	Applicable Margin
Less than .55	.325%
.55 or greater and less than .60	.40%
.60 or greater	.65%

and (iii) for each day during such times as WilTel is Unrated, as to any Eurodollar Rate Advance to WilTel (A) as to the time from July 23, 1997, to and including September 30, 1997, a rate per annum equal to .275%; (B) as to such times subsequent to September 30, 1997, the rate per annum set forth in the following table for the relevant amount of Applicable WilTel Debt to EBITDA Ratio for such day:

Applicable WilTel Debt to EBITDA	Applicable Margin
Less than or equal to 1.00	.225%
Greater than 1.00 and less than or equal to 1.75	.25%
Greater than 1.75 and less than or equal to 2.50	.275%
Greater than 2.50 and less than or equal to 3.50	.325%
Greater than 3.50 and less than or equal to 4.50	.40%
Greater than 4.50	.65%

The Applicable Margin determined pursuant to clause (i) of this definition for any Eurodollar Rate Advance to any Borrower shall change when and as the relevant Rating Category applicable to such Borrower changes. Furthermore, the applicability of clause (i) or (ii) of this definition to WPL and of clause (i) or (iii) of this definition to WilTel shall change when and as the status of WPL or WilTel, as applicable, as Unrated or not Unrated changes. For example, if WPL borrows on September 15 of a year a Eurodollar Rate Advance with a three month Interest Period and WPL is Unrated from September 15 through October 15 of such year and is not Unrated thereafter, then the Applicable Margin for such Advance will be determined (1) pursuant to the foregoing clause (ii) from September 15 through October 15 of such year (and the Applicable WPL Debt to TNW Ratio (a) for the days from September 15 through September 30 will be the WPL Debt to TNW Ratio on March 31 of such year and (b) for the days after September 30 will be the WPL Debt to TNW Ratio on June 30 of such year), and (2) pursuant to the foregoing clause (i) during the other days of such Interest Period.

"Applicable WilTel Debt to EBITDA Ratio" for any day means the WilTel Debt to EBITDA Ratio as of the end of the calendar quarter that is the second calendar quarter prior to such day.

"Applicable WPL Debt to TNW Ratio" for any day means the WPL Debt to TNW Ratio as of the end of the calendar quarter which is the second calendar quarter prior to such day. For example, the Applicable WPL Debt to TNW Ratio for any day in the calendar quarter ending September 30 of a year will be the WPL Debt to TNW Ratio as of March 31 of such year.

"Arranger" means Citicorp Securities, Inc.

"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).

"B Advance" means an advance by a Bank to a Borrower as part of a B Borrowing resulting from the auction bidding procedure described in Section 2.16.

"B Borrowing" means a borrowing consisting of simultaneous B Advances to the same Borrower from each of the Banks whose offer to make one or more B Advances as part of such borrowing has been accepted by such Borrower under the auction bidding procedure described in Section 2.16.

"B Note" means a promissory note of a Borrower payable to the order of any Bank, in substantially the form of Exhibit A-2 hereto, (or, in the case of B Advances outstanding on July 23, 1997, in substantially the form of Exhibit A-2 to the 1996 Credit Agreement) evidencing the indebtedness of such Borrower to such Bank resulting from a B Advance made to such Borrower by such Bank.

"B Reduction" has the meaning specified in Section 2.01.

"Banks" means the lenders listed on the signature pages hereof and each other Person that becomes a Bank pursuant to the last sentence of Section 8.06(a).

"Base Rate" means a fluctuating interest rate per annum as shall be in effect from time to time which rate per annum shall at all times be equal to the highest of:

(a) the rate of interest announced publicly by Citibank in New York, New York, from time to time, as Citibank's base rate; or

(b) 1/2 of one percent per annum above the latest three-week moving average of secondary market morning offering rates in the United States for three-month certificates of deposit of major United States money market banks, such three-week moving average being determined weekly on each Monday (or, if any such day is not a Business Day, on the next succeeding Business Day) for the three-week period ending on the previous Friday by Citibank on the basis of such rates reported by certificate of deposit dealers to and published by the Federal Reserve Bank of New York or, if such publication shall be suspended or terminated, on the basis of quotations for such rates received by Citibank from three New York certificate of deposit dealers of recognized standing selected by Citibank, in either case adjusted to the nearest 1/4 of one percent or, if there is no nearest 1/4 of one percent, to the next higher 1/4 of one percent; or

(c) 1/2 of one percent per annum above the Federal Funds Rate in effect from time to time.

"Base Rate Advance" means an A Advance which bears interest as provided in Section 2.06(a).

"Borrowers" means TWC, WHD, NWP, TGPL, TGT, WilTel and WPL.

"Borrowing" means an A Borrowing or a B Borrowing.

"Business Day" means a day of the year on which banks are not required or authorized to close in New York City and, if the applicable Business Day relates to any Eurodollar Rate Advances or relates to any B Advance as to which the related Notice of B Borrowing is delivered pursuant to clause (B) of Section 2.16(a)(i), on which dealings are carried on in the London interbank market.

"Citibank" means Citibank, N.A.

"Co-Agent" means each of Bank of America National Trust and Savings Association, Bank of Montreal, Credit Lyonnais New York Branch, The Chase Manhattan Bank, CIBC Inc., The First National Bank of Chicago, and Royal Bank of Canada.

"Code" means, as appropriate, 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" of any Bank to any Borrower means at any time the lesser of (i) the amount set opposite or deemed (pursuant to clause (vii) of the last sentence of Section 8.06(a) and as reflected in the relevant Transfer Agreement referred to in such sentence) to be set opposite such Bank's name for such Borrower on Schedule X as such amount may be terminated, reduced or increased after July 23, 1997, pursuant to Section 2.04, Section 2.17, Section 6.01 or Section 8.06(a), or (ii) the amount of the Commitment of such Bank to TWC at such time.

"Consolidated" refers to the consolidation of the accounts of any Person and its subsidiaries in accordance with generally accepted accounting principles.

"Consolidated Net Worth" of any Person means the Net Worth of such Person and its Subsidiaries on a Consolidated basis.

"Consolidated Tangible Net Worth" of any Person means the Tangible Net Worth of such Person and its Subsidiaries on a Consolidated basis.

"Convert," "Conversion" and "Converted" each refers to a conversion of Advances of one Type into Advances of the other Type pursuant to Section 2.02, Section 2.19 or Section 2.20.

"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 III; paragraph (y) of Schedule IV; paragraph (y) of Schedule V; paragraph (y) of Schedule VI; paragraph (h) of Schedule VII; paragraph (y) of Schedule VIII; or paragraph ( ) of Schedule IX or under or resulting from any sale and leaseback referred to in paragraph (aa) of Schedule III; paragraph (aa) of Schedule IV; paragraph (aa) of Schedule V; paragraph (bb) of Schedule VI; paragraph (j) of Schedule VII; paragraph (aa) of Schedule VIII or paragraph ( ) of Schedule IX.

"Domestic Lending Office" means, with respect to any Bank, the office of such Bank specified as its "Domestic Lending Office" opposite its name on Schedule I hereto or pursuant to Section 8.06(a), or such other office of such Bank as such Bank may from time to time specify to the Borrowers and the Agent.

"EBITDA" means for any period the sum of (i) the Consolidated net income (or loss) of WilTel and its Subsidiaries for such period determined in accordance with generally accepted accounting principles plus (ii) to the extent included in the determination of such net income (or loss), the Consolidated charges for such period for interest, depreciation, depletion and amortization, plus (or, if there is a benefit from income taxes, minus) (iii) to the extent included in the determination of such net income, the amount of the provision for or benefit from income interest; provided, however, that in determining such Consolidated net income, such Consolidated charges and such provision for or benefit from income taxes, there shall be included therefrom (to the extent otherwise included therein) (a) the net income (or loss) of, charges for interest, depreciation, depletion and amortization of, and such provision for or benefit from income taxes of, any Person acquired by WilTel or any Subsidiary of WilTel in a pooling-of-interest transaction for any period prior to the date of such transaction, (b) the net income (but not loss) of, charges for interest, depreciation, depletion and amortization of, and such provision for (but not benefit from) income taxes of, any Person which is subject to any restriction which prevents the payment of dividends or the making of distributions on the capital stock, partnership interests or other ownership interests of such Person to the extent of such restrictions, (c) pre-tax gains or losses on the sale, transfer or other disposition of any property by WilTel or its Subsidiaries (other than sales, transfer and other dispositions in the ordinary course of business), (d) all reported extraordinary gains and reported extraordinary losses, prior to applicable income taxes, and (e) any item constituting the cumulative effect of a reported change in accounting principles, prior to applicable income taxes.

"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 relating to the Environment.

"Environmental Protection Statute" shall mean 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 promulgated and rulings issued thereunder from time to time.

"ERISA Affiliate" of any Borrower means any trade or business (whether or not incorporated) which is a member of a group of which such Borrower is a member and which is under common control within the meaning of the regulations under Section 414 of the Code.

"Eurocurrency Liabilities" has the meaning assigned to that term in Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"Eurodollar Lending Office" means, with respect to any Bank, the office of such Bank specified as its "Eurodollar Lending Office" opposite its name on Schedule I hereto or pursuant to Section 8.06(a) (or, if no such office is specified, its Domestic Lending Office) or such other office of such Bank as such Bank may from time to time specify to the Borrowers and the Agent.

"Eurodollar Rate" means, for any Interest Period for each Eurodollar Rate Advance comprising part of the same A Borrowing, an interest rate per annum (rounded upward to the nearest whole multiple of 1/16 of 1% per annum, if such rate is not such a multiple) equal to the rate per annum at which deposits in U.S. dollars are offered by the principal office of Citibank in London, England, to prime banks in the London interbank market at 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount substantially equal to the amount of the Eurodollar Rate Advance of Citibank comprising part of such A Borrowing to be outstanding during such Interest Period and for a period equal to such Interest Period.

"Eurodollar Rate Advance" means an A Advance that bears interest as provided in Section 2.06(b).

"Eurodollar Rate Reserve Percentage" of any Bank for any Interest Period for any Eurodollar Rate Advance means the reserve percentage applicable during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) for such Bank with respect to liabilities or assets consisting of or including Eurocurrency Liabilities having a term equal to such Interest Period.

"Events of Default" has the meaning specified in Section 6.01. For purposes of clause (iv) of the definition herein of "Interest Period", Section 2.19 and Section 6.01, an Event of Default exists as to a particular Borrower if such Event of Default exists wholly or in part as a result of any event, condition, action, inaction, representation or other matter of, by or otherwise directly or indirectly pertaining to such Borrower or any material Subsidiary of such Borrower. Without limiting the foregoing and for purposes of further clarification, it is agreed that inasmuch as each of WilTel, WHD, NWP, WPL, TGPL and TGT is a Subsidiary of TWC, any Event of Default that exists as to any of WilTel, WHD, NWP, WPL, TGPL or TGT also exists as to TWC.

"Federal Funds Rate" means, for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by the Agent from three federal funds brokers of recognized standing selected by it.

"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" means, for each A Advance to a Borrower comprising part of the same A Borrowing, the period commencing on the date of such A Advance or the date of the Conversion of any Base Rate Advance into a Eurodollar Rate Advance and ending on the last day of the period selected by such Borrower pursuant to the provisions below and, thereafter, each subsequent period commencing on the last day of the immediately preceding Interest Period and ending on the last day of the period selected by such Borrower pursuant to the provisions below. The duration of each Interest Period shall be one, two, three or six months, in each case as such Borrower may, upon notice received by the Agent not later than 11:00 A.M. (New York City time) on the third Business Day prior to the first day of such Interest Period, select (it being agreed that selection of a subsequent Interest Period for an outstanding Eurodollar Rate Advance does not require that a Notice of A Borrowing be given, inasmuch as no Advance is being requested or made as a result of such selection); provided, however, that:

(i) Interest Periods commencing on the same date for A Advances comprising part of the same A Borrowing shall be of the same duration;

(ii) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day, provided that if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day;

(iii) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month in which it would have ended if there were a numerically corresponding day in such calendar month; and

(iv) no Borrower may select any Interest Period that ends after the Termination Date, and no Borrower may select any Interest Period if any Event of Default exists as to such Borrower.

"Lien" means any mortgage, lien, pledge, charge, deed of trust, security interest, encumbrance or 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).

"Majority Banks" means at any time Banks holding at least 66-2/3% of the then aggregate unpaid principal amount of the A Notes held by Banks, or, if no such principal amount is then outstanding, Banks having at least 66-2/3% of the Commitments or, if no such principal amount is then outstanding and all Commitments have terminated, Banks holding at least 66-2/3% of the then aggregate unpaid principal amount of the B Notes held by Banks (provided that for purposes of this definition and Sections 2.17, 6.01 and 7.01 neither any Borrower nor any Subsidiary or Related Party of any Borrower, if a Bank, shall be included in (i) the Banks holding the A Notes or B Notes or (ii) determining the aggregate unpaid principal amount of the A Notes or the B Notes or the amount of the Commitments).

"Moody's" means Moody's Investors Service, Inc.

"Multiemployer Plan" means a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA to which any Borrower or any ERISA Affiliate of any Borrower is making or accruing an obligation to make contributions, or has within any of the preceding five plan 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 any Borrower or any ERISA Affiliate of any Borrower, and one or more employers other than any Borrower or an ERISA Affiliate of any Borrower, is making or accruing an obligation to make contributions or, in the event that any such plan has been terminated, to which any Borrower or any ERISA Affiliate of any Borrower made or accrued an obligation to make contributions during any of the five plan years preceding the date of termination of such plan.

"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 generally accepted accounting principles.

"1996 Credit Agreement" has the meaning specified in the preliminary statements of this Agreement.

"Non-Borrowing Subsidiary" of any Borrower means a Subsidiary of such Borrower which Subsidiary is not itself a Borrower.

"Non-Recourse Debt" means Debt incurred by any non-material, Non-Borrowing Subsidiary to finance the acquisition (other than any acquisition from TWC or any Subsidiary) or construction of a project, which Debt does not permit or provide for recourse against TWC or any Subsidiary of TWC (other than the Subsidiary that is to acquire or construct such project) or any property or asset of TWC or any Subsidiary of TWC (other than property or assets of the subsidiary that is to acquire or construct such project).

"Note" means an A Note or a B Note.

"Notice of A Borrowing" has the meaning specified in Section 2.02(a).

"Notice of B Borrowing" has the meaning specified in Section 2.16(a).

"NWP" means Northwest Pipeline Corporation, a Delaware corporation.

"PBGC" means the Pension Benefit Guaranty Corporation.

"Permitted NWP Liens" means Liens specifically described on Schedule III.

"Permitted TGPL Liens" means Liens specifically described on Schedule IV.

"Permitted TGT Liens" means Liens specifically described on Schedule V.

"Permitted TWC Liens" means Liens specifically described on Schedule VI.

"Permitted WHD Liens" means Liens specifically described on Schedule VIII.

"Permitted WilTel Liens" means Liens specifically described on Schedule IX.

"Permitted WPL Liens" means Liens specifically described on Schedule VII.

"Person" means an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture or other entity, or a government or any political subdivision or agency thereof.

"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, any Borrower or any ERISA Affiliate of any Borrower for employees of a Borrower 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.

"Public Filings" means TWC's, NWP's, TGPL's and TGT's respective annual reports on Form 10-K for the year ended December 31, 1996, and TWC's, NWP's, TGPL's and TGT's respective quarterly reports on Form 10-Q for the quarter ended March 31, 1997.

"Rating Category" means, as to any Borrower, the relevant category applicable to such Borrower from time to time as set forth on Schedule XI, which is based on the ratings (or lack thereof) of such Borrower's senior unsecured long-term debt by S&P or Moody's.

"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); provided, however, that neither TWC nor any Subsidiary of TWC shall be considered to be a Related Party of TWC or any Subsidiary of TWC.

"S&P" means Standard & Poor's Ratings Group, a division of Mc-Graw Hill, Inc. on the date hereof.

"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; provided, however, that any sale and lease-back of cushion gas, whether now or hereafter existing, shall not be considered to be a Sale and Lease-Back Transaction and any sale and lease-back of inventory, whether now or hereafter existing, by WPL or any of its Subsidiaries (other than another Borrower) shall not be considered to be a Sale and Lease-Back Transaction.

"Stated Termination Date" means July 31, 2002, or such later date, if any as may be agreed to by the Borrowers and the Banks pursuant to Section 2.18.

"Subordinated Debt" means any Debt of any Borrower which is effectively subordinated to the obligations of such Borrower hereunder and under the Notes.

"Subsidiary" of any Person 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 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.

"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 generally accepted accounting principles, excluding, however, from the determination of total assets (i) patents, patent applications, trademarks, copyrights and trade names, (ii) goodwill, organizational, experimental, research and development expense and other like intangibles, (iii) treasury stock, (iv) 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 (v) unamortized debt discount and expense.

"Termination Date" means the earlier of (i) the Stated Termination Date or (ii) the date of termination in whole of the Commitments pursuant to Section 2.04, 2.17 or 6.01.

"Termination Event" means (i) a "reportable event", as such term is described in Section 4043 of ERISA (other than a "reportable event" not subject to the provision for 30-day notice to the PBGC), or an event described in Section 4062(f) of ERISA, or (ii) the withdrawal of any Borrower or any ERISA Affiliate of any Borrower 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 any Borrower or any ERISA Affiliate of any Borrower under Section 4064 of ERISA upon the termination of a Plan or Multiple Employer Plan, or (iii) 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 (iv) the institution of proceedings to terminate a Plan by the PBGC under Section 4042 of ERISA, or (v) 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.

"Transfer Agreement" has the meaning specified in Section 8.06.

"TWC" means The Williams Companies, Inc., a Delaware corporation.

"Type" has the meaning set forth in the definition herein of A Advance.

"Unrated" means, as to any Borrower, that no senior unsecured long-term debt of such Borrower is rated by S&P and no senior unsecured long-term debt of such Borrower is rated by Moody's.

"Wholly-Owned Subsidiary" of any Person means any Subsidiary of such Person all of the capital stock and other equity interests of which is owned by such Person or any Wholly-Owned Subsidiary of such Person.

"WilTel Pro Forma Income Statements" means the pro forma income statements for the calendar quarters ended June 30, 1996, September 30, 1996, December 31, 1996, and March 31, 1997, included as Exhibit G hereto.

"Withdrawal Liability" shall have the meaning given such term under Part I of Subtitle E of Title IV of ERISA.

"WFS" means Williams Field Services Group, Inc., a Delaware corporation.

"WHD" means Williams Holdings of Delaware, Inc., a Delaware corporation.

"WilTel" means WilTel Communications, LLC, a Delaware limited liability company.

"WilTel Debt to EBITDA Ratio" means, as of the end of any calendar quarter, the ratio of (i) the aggregate amount, as of the end of such quarter, of all Debt of WilTel and its Subsidiaries on a Consolidated basis to (ii) EBITDA for the period of four consecutive calendar quarters ending on (and including) the last day of such calendar quarter; provided, however, in calculating the WilTel Debt to EBITDA Ratio for calendar quarters ending prior to and including June 30, 1998, the WilTel Debt to EBITDA Ratio shall be determined based upon the WilTel Pro Forma Income Statements to the extent necessary because actual income statements are not available.

"WNG" means Williams Natural Gas Company, a Delaware corporation.

"WPL" means Williams Pipe Line Company, a Delaware corporation.

"WPL Debt to TNW Ratio" means at any date the ratio of (i) the aggregate amount at such date of all Debt of WPL and its Subsidiaries on a Consolidated basis to (ii) the sum of the Consolidated Tangible Net Worth at such date of WPL plus the aggregate amount at such date of all Debt of WPL and its Subsidiaries on a Consolidated basis.

Section 1.02. Computation of Time Periods. In this Agreement in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each means "to but excluding."

Section 1.03. Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles, and each reference herein to "generally accepted accounting principles" shall mean generally accepted accounting principles consistent with those applied in the preparation of the financial statements referred to in Section 4.01(e)(i).

Section 1.04. Miscellaneous. The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Article, Section, Schedule and Exhibit references are to Articles and Sections of and Schedules and Exhibits to this Agreement, unless otherwise specified.

Section 1.05. Ratings. A rating, whether public or private, by S&P or Moody's shall be deemed to be in effect on the date of announcement or publication by S&P or Moody's, as the case may be, of such rating or, in the absence of such announcement or publication, on the effective date of such rating and will remain in effect until the announcement or publication of, or in the absence of such announcement or publication, the effective date of, any change in, or withdrawal or termination of, such rating. In the event the standards for any rating by Moody's or S&P are revised, or any such rating is designated differently (such as by changing letter designations to different letter designations or to numerical designations), the references herein to such rating shall be deemed to refer to the revised or redesignated rating for which the standards are closest to, but not lower than, the standards at the date hereof for the rating which has been revised or redesignated, all as determined by the Majority Banks in good faith. Long-term debt supported by a letter of credit, guaranty, insurance or other similar credit enhancement mechanism shall not be considered as senior unsecured long-term debt. If either Moody's or S&P has at any time more than one rating applicable to senior unsecured long-term debt of a Borrower, the lowest such rating shall be applicable for purposes hereof. For example, if Moody's rates some senior unsecured long-term debt of a Borrower Ba1 and other such debt of such Borrower Ba2, the senior unsecured long-term debt of such Borrower shall be deemed to be rated Ba2 by Moody's.

ARTICLE II

AMOUNTS AND TERMS OF THE ADVANCES

Section 2.01. The A Advances. Each Bank severally agrees, on the terms and conditions hereinafter set forth, to make A Advances to each Borrower from time to time on any Business Day during the period from the date hereof until the Termination Date in an aggregate amount outstanding not to exceed at any time such Bank's Commitment to such Borrower, provided that the aggregate amount of the Commitments of the Banks to any Borrower shall, except for purposes of Section 2.03(a), be deemed used from time to time to the extent of the aggregate amount of the B Advances then outstanding to such Borrower and such deemed use of the aggregate amount of such Commitments shall be applied to the Banks ratably according to their respective Commitments to such Borrower (such deemed use of the aggregate amount of the Commitments of any Borrower being a "B Reduction"), and provided further that the aggregate amount of all A Advances to all Borrowers by any Bank shall not exceed at any time outstanding such Bank's Commitment to TWC (determined after giving effect to such Bank's ratable share of all B Reductions). Each A Borrowing shall be in an aggregate amount not less than $5,000,000 or an integral multiple of $1,000,000 in excess thereof, and shall consist of A Advances of the same Type made to the same Borrower on the same day by the Banks ratably according to their respective Commitments. Within the limits of each Bank's Commitment to a Borrower, such Borrower may borrow, prepay pursuant to Section 2.10 and reborrow under this Section 2.01.

Section 2.02. Making the A Advances. (a) Each A Borrowing shall be made on notice, given not later than (1) in the case of a proposed Borrowing comprised of Eurodollar Rate Advances, 11:00 A.M. (New York City time) at least three Business Days prior to the date of the proposed Borrowing, and (2) in the case of a proposed Borrowing comprised of Base Rate Advances, 10:00 A.M. (New York City time) on the date of the proposed Borrowing, by the Borrower requesting such A Borrowing to the Agent, which shall give to each Bank prompt notice thereof by telecopy, telex or cable. Each such notice of an A Borrowing (a "Notice of A Borrowing") shall be by telecopy, telex or cable, confirmed immediately in writing, in substantially the form of Exhibit B-1 hereto, executed by the Borrower requesting such A Borrowing and specifying therein the requested (i) date of such A Borrowing (which shall be a Business Day), (ii) initial Type of A Advances comprising such A Borrowing, (iii) aggregate amount of such A Borrowing, and (iv) in the case of an A Borrowing comprised of Eurodollar Rate Advances, initial Interest Period for each such A Advance. Each Bank shall, before 11:00 A.M. (New York City time) on the date of such A Borrowing, make available for the account of its Applicable Lending Office to the Agent at its New York address referred to in Section 8.02, in same day funds, such Bank's ratable portion of such A Borrowing. After the Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article III, the Agent will make such funds available to the Borrower requesting such A Borrowing at the Agent's aforesaid address. Notwithstanding the other provisions hereof, each Bank that is to be paid by any Borrower on July 23, 1997, any principal amount outstanding under the 1996 Credit Agreement as contemplated by Section 8.14 shall apply the proceeds of any Advance to be made by it to such Borrower on such date to pay such amount and only an amount equal to the difference (if any) between the amount of such Advance and the principal amount being so paid shall be made available by such Bank to the Agent as provided herein, or remitted by such Borrower to the Agent as provided in Section 2.13, as the case may be.

(b) Anything herein to the contrary notwithstanding:

(i) at no time shall there be outstanding to any one Borrower more than six A Borrowings comprised of Eurodollar Rate Advances;

(ii) no Borrower may select Eurodollar Rate Advances for any Borrowing if the aggregate amount of such Borrowing is less than (x) if such Borrowing is made by WPL or WilTel, $5,000,000, and (y) if such Borrowing is made by any other Borrower, $20,000,000;

(iii) if the Majority Banks shall notify the Agent that either (A) the Eurodollar Rate for any Interest Period for any Eurodollar Rate Advances will not adequately reflect the cost to such Banks of making or funding their respective Eurodollar Rate Advances for such Interest Period, or (B) that U.S. dollar deposits for the relevant amounts and Interest Period for their respective Advances are not available to them in the London interbank market, or it is otherwise impossible to have Eurodollar Rate Advances, the Agent shall forthwith so notify the Borrowers and the Banks, whereupon (I) each Eurodollar Rate Advance will automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Advance, and (II) the obligations of the Banks to make, or to Convert Advances into, Eurodollar Rate Advances shall be suspended until the Agent, at the request of the Majority Banks, shall notify the Borrowers and the Banks that the circumstances causing such suspension no longer exist, and, except as provided in Section 2.02(b)(v), each Advance comprising any requested A Borrowing shall be a Base Rate Advance;

(iv) if the Agent is unable to determine the Eurodollar Rate for Eurodollar Rate Advances, the obligation of the Banks to make, or to Convert Advances into, Eurodollar Rate Advances shall be suspended until the Agent shall notify the Borrowers and the Banks that the circumstances causing such suspension no longer exist, and, except as provided in Section 2.02(b)(v), each Advance comprising any requested A Borrowing shall be a Base Rate Advance; and

(v) if a Borrower has requested a proposed A Borrowing consisting of Eurodollar Rate Advances and as a result of circumstances referred to in Section 2.02(b)(iii) or (iv) such A Borrowing would not consist of Eurodollar Rate Advances, such Borrower may, by notice given not later than 3:00 P.M. (New York City time) at least one Business Day prior to the date such proposed A Borrowing would otherwise be made, cancel such A Borrowing, in which case such A Borrowing shall be cancelled and no Advances shall be made as a result of such requested A Borrowing, but such Borrower shall indemnify the Banks in connection with such cancellation as contemplated by Section 2.02(c).

(c) Each Notice of A Borrowing shall be irrevocable and binding on the Borrowers, except as set forth in Section 2.02(b)(v). In the case of any A Borrowing requested by a Borrower which the related Notice of A Borrowing specifies is to be comprised of Eurodollar Rate Advances, such Borrower shall indemnify each Bank against any loss, cost or expense incurred by such Bank as a result of any failure to fulfill on or before the date specified in such Notice of A Borrowing for such A Borrowing the applicable conditions set forth in Article III, including, without limitation, any loss (including loss of reasonably anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Bank to fund the A Advance to be made by such Bank as part of such A Borrowing when such A Advance, as a result of such failure, is not made on such date. A certificate in reasonable detail as to the basis for and the amount of such loss, cost or expense submitted to such Borrower and the Agent by such Bank shall be prima facie evidence of the amount of such loss, cost or expense. If an A Borrowing requested by a Borrower which the related Notice of A Borrowing specifies is to be comprised of Eurodollar Rate Advances is not made as an A Borrowing comprised of Eurodollar Rate Advances as a result of Section 2.02(b), such Borrower shall indemnify each Bank against any loss (excluding loss of profits), cost or expense incurred by such Bank by reason of the liquidation or reemployment of deposits or other funds acquired by such Bank prior to the time such Bank is actually aware that such A Borrowing will not be so made to fund the A Advance to be made by such Bank as part of such A Borrowing. A certificate in reasonable detail as to the basis for and the amount of such loss, cost or expense submitted to such Borrower and the Agent by such Bank shall be prima facie evidence of the amount of such loss, cost or expense.

(d) Unless the Agent shall have received notice from a Bank prior to the date of any A Borrowing to a Borrower that such Bank will not make available to the Agent such Bank's ratable portion of such A Borrowing, the Agent may assume that such Bank has made such portion available to the Agent on the date of such A Borrowing in accordance with subsection (a) of this Section 2.02 and the Agent may, in reliance upon such assumption, make available to such Borrower requesting such A Borrowing on such date a corresponding amount. If and to the extent that such Bank shall not have so made such ratable portion available to the Agent, such Bank and such Borrower severally agree to repay to the Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to such Borrower until the date such amount is repaid to the Agent, at (i) in the case of such Borrower, the interest rate applicable at the time to A Advances comprising such A Borrowing and (ii) in the case of such Bank, the Federal Funds Rate. If such Bank shall repay to the Agent such corresponding amount, such amount so repaid shall constitute such Bank's A Advance as part of such A Borrowing for purposes of this Agreement.

(e) The failure of any Bank to make the A Advance to be made by it as part of any A Borrowing shall not relieve any other Bank of its obligation, if any, hereunder to make its A Advance on the date of such A Borrowing, but no Bank shall be responsible for the failure of any other Bank to make the A Advance to be made by such other Bank on the date of any A Borrowing.

Section 2.03. Fees.

(a) Commitment Fee. TWC agrees to pay to the Agent for the account of each Bank a commitment fee on the average daily unused (for the purposes of this Section 2.03(a), A Advances made to any Borrower shall be considered to have been made to TWC, but B Advances to any Borrower shall not, for purposes of this Section 2.03(a), be considered to be usage of any Commitment) portion of such Bank's Commitment to TWC from the date hereof until the Termination Date at a rate per annum from time to time equal to the Applicable Commitment Fee Rate from time to time, payable in arrears on the last day of each March, June, September and December during the term such Bank has any Commitment to any Borrower and on the Termination Date.

(b) Agent's Fees. TWC agrees to pay to the Agent, for its sole account, such fees as may be separately agreed to in writing by TWC and the Agent.

Section 2.04. Reduction of the Commitments.

(a) Optional. Each Borrower shall have the right, upon at least three Business Days notice to the Agent, to terminate in whole or reduce ratably in part the unused portions of the respective Commitments of the Banks to such Borrower, provided that each partial reduction shall be in the aggregate amount of at least $20,000,000, and provided further, that the aggregate amount of the Commitments of the Banks to any Borrower shall not be reduced to an amount which is less than the aggregate principal amount of the Advances then outstanding to such Borrower, and provided further, that the aggregate amount of the Commitments of the Banks to TWC shall not be reduced to an amount which is less than the aggregate principal amount of the Advances then outstanding to the Borrower as to which the aggregate outstanding principal amount of Advances is then the largest.

(b) Termination. If all of the Commitments of the Banks to a Borrower (other than TWC) are terminated pursuant to Section 2.04(a) and such Borrower has paid all principal, interest, fees, costs and other amounts owed by it hereunder and under the Notes executed by it, such Borrower shall have the right, upon at least three Business Days notice to the Agent, to elect to cease to be a Borrower hereunder, except for purposes of the definition herein of Majority Banks and for purposes of Sections 2.11, 2.14 and 8.04.

Section 2.05. Repayment of A Advances. Each Borrower shall repay, on the Stated Termination Date or such earlier date as the Notes may be declared due pursuant to Article VI, the unpaid principal amount of each A Advance made by each Bank to such Borrower.

Section 2.06. Interest on A Advances. Each Borrower shall pay interest on the unpaid principal amount of each A Advance made by each Bank to such Borrower from the date of such A Advance until such principal amount shall be paid in full, at the following rates per annum:

(a) Base Rate Advances. At such times as such A Advance is a Base Rate Advance, a rate per annum equal at all times to the Base Rate in effect from time to time, payable quarterly in arrears on the last day of each March, June, September and December and on the date such Advance shall be Converted or paid in full; provided that any amount of principal of any Base Rate Advance, interest, fees and other amounts payable hereunder (other than principal of any Eurodollar Rate Advance) which is not paid when due (whether at stated maturity, by acceleration or otherwise) shall bear interest, from the date on which such amount is due until such amount is paid in full, payable on demand, at a rate per annum equal at all times to the sum of the Base Rate in effect from time to time plus 2% per annum.

(b) Eurodollar Rate Advances. At such times as such A Advance is a Eurodollar Rate Advance, a rate per annum equal at all times during each Interest Period for such A Advance to the sum of the Eurodollar Rate for such Interest Period plus the Applicable Margin in effect from time to time for such A Advance, payable on the last day of such Interest Period and, if such Interest Period has a duration of more than three months, on each day which occurs during such Interest Period every three months from the first day of such Interest Period; provided that any amount of principal of any Eurodollar Rate Advance which is not paid when due (whether at stated maturity, by acceleration or otherwise) shall bear interest, from the date on which such amount is due until such amount is paid in full, payable on demand, at a rate per annum equal at all times to the greater of (x) the sum of the Base Rate in effect from time to time plus 2% per annum and (y) the sum of the rate per annum required to be paid on such A Advance immediately prior to the date on which such amount became due plus 2% per annum.

Section 2.07. Additional Interest on Eurodollar Rate Advances. Each Borrower shall pay to each Bank, so long as such Bank shall be required under regulations of the Board of Governors of the Federal Reserve System to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency Liabilities, additional interest on the unpaid principal amount of each Eurodollar Rate Advance of such Bank to such Borrower, from the date of such Advance until such principal amount is paid in full, at an interest rate per annum equal at all times to the remainder obtained by subtracting (i) the Eurodollar Rate for the Interest Period for such Advance from (ii) the rate obtained by dividing such Eurodollar Rate by a percentage equal to 100% minus the Eurodollar Rate Reserve Percentage of such Bank for such Interest Period, payable on each date on which interest is payable on such Advance. Such additional interest shall be determined by such Bank and notified to such Borrower through the Agent. A certificate as to the amount of such additional interest submitted to such Borrower and the Agent by such Bank shall be conclusive and binding for all purposes, absent manifest error. No Bank shall have the right to recover any additional interest pursuant to this Section 2.07 for any period more than 90 days prior to the date such Bank notifies the Borrowers that additional interest may be charged pursuant to this Section 2.07.

Section 2.08. Interest Rate Determination. The Agent shall give prompt notice to the Borrower to which an A Advance is made and the Banks of the applicable interest rate for each Eurodollar Rate Advance determined by the Agent for purposes of Section 2.06(b).

Section 2.09. Evidence of Debt. The indebtedness of each Borrower resulting from the A Advances owed to each Bank by such Borrower shall be evidenced by an A Note of such Borrower payable to the order of such Bank.

Section 2.10. Prepayments.

(a) No Borrower shall have any right to prepay any principal amount of any A Advance except as provided in this Section 2.10.

(b) Any Borrower may, in respect of Base Rate Advances upon notice to the Agent before 10:00 A.M. (New York City time) on the date of prepayment, and in respect of Eurodollar Rate Advances upon at least three Business Days' notice to the Agent, in each case stating the proposed date (which shall be a Business Day) and aggregate principal amount of the prepayment, and if such notice is given such Borrower shall, prepay the outstanding principal amounts of the A Advances comprising part of the same A Borrowing in whole or ratably in part, together with accrued interest to the date of such prepayment on the principal amount prepaid and amounts, if any, required to be paid pursuant to Section 8.04(b) as a result of such prepayment; provided, however, that each partial prepayment pursuant to this Section 2.10(b) shall be in an aggregate principal amount not less than $5,000,000 and in an aggregate principal amount such that after giving effect thereto no A Borrowing comprised of Base Rate Advances shall have a principal amount outstanding of less than $5,000,000 and no A Borrowing comprised of Eurodollar Rate Advances shall have a principal amount outstanding of less than (i) if such A Borrowing was made by WPL or WilTel, $5,000,000, and (ii) if such A Borrowing was made by any other Borrower, $20,000,000.

(c) Each Borrower will give notice to the Agent at or before the time of each prepayment by such Borrower of Advances pursuant to this Section 2.10 specifying the Advances which are to be prepaid and the amount of such prepayment to be applied to such Advances, and each payment of any Advance pursuant to this Section 2.10 or any other provision of this Agreement shall be made in a manner such that all Advances comprising part of the same Borrowing are paid in whole or ratably in part.

Section 2.11. Increased Costs.

(a) If, due to either (i) the introduction of or any change (other than any change by way of imposition or increase of reserve requirements included in the Eurodollar Rate Reserve Percentage) in or in the interpretation, application or applicability of any law or regulation or (ii) the compliance with any guideline or request from any central bank or other governmental authority (whether or not having the force of law), there shall be any increase in the cost to any Bank of agreeing to make or making, funding or maintaining Eurodollar Rate Advances to any Borrower, then such Borrower shall from time to time, upon demand by such Bank (with a copy of such demand to the Agent), pay to the Agent for the account of such Bank additional amounts sufficient to compensate such Bank for such increased cost. A certificate as to the amount of such increased cost, submitted to such Borrower and the Agent by such Bank, shall be prima facie evidence of the amount of such increased cost. No Bank shall have the right to recover any such increased costs for any period more than 90 days prior to the date such Bank notifies the Borrowers of any such introduction, change, compliance or proposed compliance.

(b) If any Bank determines that compliance with any law or regulation or any guideline or request from any central bank or other governmental authority (whether or not having the force of law) affects or would affect the amount of capital required or expected to be maintained by such Bank or any corporation controlling such Bank and that the amount of such capital is increased by or based upon the existence of such Bank's commitment to lend to any Borrower hereunder and other commitments of this type, then, upon demand by such Bank (with a copy of such demand to the Agent), such Borrower shall immediately pay to the Agent for the account of such Bank, from time to time as specified by such Bank, additional amounts sufficient to compensate such Bank or such corporation in the light of such circumstances, to the extent that such Bank reasonably determines such increase in capital to be allocable to the existence of such Bank's commitment to lend hereunder. A certificate as to the amount of such additional amounts, submitted to such Borrower and the Agent by such Bank, shall be prima facie evidence of the amount of such additional amounts. No Bank shall have any right to recover any additional amounts under this Section 2.11(b) for any period more than 90 days prior to the date such Bank notifies the Borrowers of any such compliance.

(c) In the event that any Bank makes a demand for payment under Section 2.07 or this Section 2.11, TWC may within ninety days of such demand, if no Event of Default or event which, with the giving of notice or lapse of time or both, would constitute an Event of Default then exists, replace such Bank with another commercial bank in accordance with all of the provisions of the last sentence of Section 8.06(a) (including execution of an appropriate Transfer Agreement) provided that (i) all obligations of such Bank to lend hereunder shall be terminated and the Notes payable to such Bank and all other obligations owed to such Bank hereunder shall be purchased in full without recourse at par plus accrued interest at or prior to such replacement, (ii) such replacement bank shall be reasonably satisfactory to the Agent and the Majority Banks, (iii) such replacement bank shall, from and after such replacement, be deemed for all purposes to be a "Bank" hereunder with a Commitment to each Borrower in the amount of the respective Commitment of such Bank to such Borrower immediately prior to such replacement (plus, if such replacement bank is already a Bank prior to such replacement the respective Commitment of such Bank to such Borrower prior to such replacement), as such amount may be changed from time to time pursuant hereto, and shall have all of the rights, duties and obligations hereunder of the Bank being replaced, and (iv) such other actions shall be taken by the Borrowers, such Bank and such replacement bank as may be appropriate to effect the replacement of such Bank with such replacement bank on terms such that such replacement bank has all of the rights, duties and obligations hereunder as such Bank (including, without limitation, execution and delivery of new Notes of each Borrower to such replacement bank, redelivery to each Borrower in due course of the Notes of such Borrower payable to such Bank and specification of the information contemplated by Schedule I as to such replacement bank).

Section 2.12. Illegality. Notwithstanding any other provision of this Agreement, if any Bank shall notify the Agent that the introduction of or any change in or in the interpretation of any law or regulation shall make it unlawful, or that any central bank or other governmental authority shall assert that it is unlawful, for any Bank or its Eurodollar Lending Office to perform its obligations hereunder to make, or Convert a Base Rate Advance into, a Eurodollar Rate Advance or to continue to fund or maintain any Eurodollar Rate Advance, then, on notice thereof to the Borrowers by the Agent, (i) the obligation of each of the Banks to make, or to Convert Advances into, Eurodollar Rate Advances shall be suspended until the Agent, at the request of the Majority Banks, shall notify the Borrowers and the Banks that the circumstances causing such suspension no longer exist, and (ii) the Borrowers shall forthwith prepay in full all Eurodollar Rate Advances of all Banks then outstanding together with all accrued interest thereon and all amounts payable pursuant to Section 8.04(b), unless each Bank shall determine in good faith in its sole opinion that it is lawful to maintain the Eurodollar Rate Advances made by such Bank to the end of the respective Interest Periods then applicable thereto or unless the Borrowers, within five Business Days of notice from the Agent, Convert all Eurodollar Rate Advances of all Banks then outstanding into Base Rate Advances in accordance with Section 2.19.

Section 2.13. Payments and Computations.

(a) Each Borrower shall make each payment hereunder and under the Notes to be made by it not later than 11:00 A.M. (New York City time) on the day when due in U.S. dollars to the Agent at its New York address referred to in Section 8.02 in same day funds. The Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal, interest or commitment fees ratably (other than amounts payable pursuant to Section 2.07, 2.11, 2.14, 2.16 or 8.04(b)) to the Banks for the account of their respective Applicable

Lending Offices, and like funds relating to the payment of any other amount payable to any Bank to such Bank for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement. In no event shall any Bank be entitled to share any fee paid to the Agent pursuant to Section 2.03(b), any auction fee paid to the Agent pursuant to Section 2.16(a)(i) or any other fee paid to the Agent, as such.

(b) Each Borrower hereby authorizes each Bank, if and to the extent payment owed to such Bank by such Borrower is not made when due hereunder or under any Note of such Borrower held by such Bank, to charge from time to time against any or all of such Borrower's accounts with such Bank any amount so due.

(c) All computations of interest based on clause (a) or clause (b) of the definition herein of Base Rate and of commitment fees shall be made by the Agent on the basis of a year of 365 or 366 days, as the case may be, and all computations of interest based on the Eurodollar Rate, the Federal Funds Rate or clause (c) of the definition herein of Base Rate shall be made by the Agent, and all computations of interest pursuant to Section 2.07 shall be made by a Bank, on the basis of a year of 360 days, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest or commitment fees are payable. Each determination by the Agent (or, in the case of Section 2.07, by a Bank) of an interest rate hereunder shall be conclusive and binding for all purposes, absent manifest error.

(d) Whenever any payment hereunder or under the Notes shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest or commitment fee, as the case may be; provided, however, if such extension would cause payment of interest on or principal of Eurodollar Rate Advances to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(e) Unless the Agent shall have received notice from a Borrower prior to the date on which any payment is due by such Borrower to any Bank hereunder that such Borrower will not make such payment in full, the Agent may assume that such Borrower has made such payment in full to the Agent on such date and the Agent may, in reliance upon such assumption, cause to be distributed to each Bank on such due date an amount equal to the amount then due such Bank hereunder. If and to the extent such Borrower shall not have so made such payment in full to the Agent, each Bank shall repay to the Agent forthwith on demand such amount distributed to such Bank together with interest thereon, for each day from the date such amount is distributed to such Bank until the date such Bank repays such amount to the Agent, at the Federal Funds Rate.

Section 2.14. Taxes.

(a) Any and all payments by any Borrower hereunder or under the Notes shall be made, in accordance with Section 2.13, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings with respect thereto, and all liabilities with respect thereto, excluding in the case of each Bank and the Agent, taxes imposed on its income, and franchise taxes imposed on it, by the jurisdiction under the laws of which such Bank or the Agent (as the case may be) is organized or any political subdivision thereof and, in the case of each Bank, taxes imposed on its income, and franchise taxes imposed on it, by the jurisdiction of such Bank's Applicable Lending Office or any political subdivision thereof (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If any Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any Note to any Bank or the Agent, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.14) such Bank or the Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) such Borrower shall make such deductions and (iii) such Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) In addition, each Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made by such Borrower hereunder or under the Notes executed by it or from the execution, delivery or registration of, or otherwise with respect to, this Agreement or such Notes (hereinafter referred to as "Other Taxes").

(c) Each Borrower will indemnify each Bank and the Agent for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 2.14) owed and paid by such Bank or the Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. This indemnification shall be made within 30 days from the date such Bank or the Agent (as the case may be) makes written demand therefor.

(d) Within 30 days after the date of the payment of Taxes by or at the direction of any Borrower, such Borrower will furnish to the Agent, at its address referred to in Section 8.02, the original or a certified copy of a receipt evidencing payment thereof. Should any Bank or the Agent ever receive any refund, credit or deduction from any taxing authority to which such Bank or the Agent would not be entitled but for the payment by a Borrower of Taxes as required by this Section 2.14 (it being understood that the decision as to whether or not to claim, and if claimed, as to the amount of any such refund, credit or deduction shall be made by such Bank or the Agent, as the case may be, in its sole discretion), such Bank or the Agent, as the case may be, thereupon shall repay to such Borrower an amount with respect to such refund, credit or deduction equal to any net reduction in taxes actually obtained by such Bank or the Agent, as the case may be, and determined by such Bank or the Agent, as the case may be, to be attributable to such refund, credit or deduction.

(e) Without prejudice to the survival of any other agreement of the Borrowers hereunder, the agreements and obligations of the Borrowers contained in this Section 2.14 shall survive the payment in full of principal and interest hereunder and under the Notes.

Section 2.15. Sharing of Payments, Etc. If any Bank shall obtain any payment (whether voluntary or involuntary, or through the exercise of any right of set-off or otherwise) on account of the A Advances made by it (other than pursuant to Section 2.07, 2.11, 2.14 or 8.04(b)) in excess of its ratable share of payments on account of the A Advances obtained by all the Banks, such Bank shall forthwith purchase from the other Banks such participations in the A Advances owed to them as shall be necessary to cause such purchasing Bank 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 Bank, such purchase from each Bank shall be rescinded and such Bank shall repay to the purchasing Bank the purchase price to the extent of such Bank's ratable share (according to the proportion of (i) the amount of the participation purchased from such Bank as a result of such excess payment to (ii) the total amount of such excess payment) of such recovery together with an amount equal to such Bank's ratable share (according to the proportion of (i) the amount of such Bank's required repayment to (ii) the total amount so recovered from the purchasing Bank) of any interest or other amount paid or payable by the purchasing Bank in respect of the total amount so recovered. Each Borrower agrees that any Bank so purchasing a participation from another Bank pursuant to this Section 2.15 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Bank were the direct creditor of such Borrower in the amount of such participation.

Section 2.16. The B Advances.

(a) Each Bank severally agrees that each Borrower may make B Borrowings under this Section 2.16 from time to time on any Business Day during the period from the date hereof until the earlier of (I) the Termination Date or (II) the date occurring 30 days prior to the Stated Termination Date in the manner set forth below; provided that, following the making of each B Borrowing, the aggregate amount of the Advances then outstanding to such Borrower shall not exceed the aggregate amount of the Commitments of the Banks to such Borrower (computed without regard to any B Reduction) and the aggregate amount of all Advances then outstanding shall not exceed the aggregate amount of the Commitments of the Banks to TWC (computed without regard to any B Reduction).

(i) A Borrower may request a B Borrowing under this Section 2.16 by delivering to the Agent, by telecopier, telex or cable, confirmed immediately in writing, a notice of a B Borrowing (a "Notice of B Borrowing"), in substantially the form of Exhibit B-2 hereto, specifying the date and aggregate amount of the proposed B Borrowing, the maturity date for repayment of each B Advance to be made as part of such B Borrowing (which maturity date may not be earlier than the date occurring 14 days after the date of such B Borrowing or later than the earlier of (x) 6 months after the date of such B Borrowing or (y) the Stated Termination Date), the interest payment date or dates relating thereto, and any other terms to be applicable to such B Borrowing (including, without limitation, the basis to be used by the Banks in determining the rate or rates of interest to be offered by them as provided in paragraph (ii) below and prepayment terms, if any, but excluding any waiver or other modification to any of the conditions set forth in Article III), not later than 10:00 A.M. (New York City time) (A) at least one Business Day prior to the date of the proposed B Borrowing, if such Borrower shall specify in the Notice of B Borrowing that the rates of interest to be offered by the Banks shall be fixed rates per annum and (B) at least five Business Days prior to the date of the proposed B Borrowing, if such Borrower shall instead specify in the Notice of B Borrowing the basis to be used by the Banks in determining the rates of interest to be offered by them. The Agent shall in turn promptly notify each Bank of each request for a B Borrowing received by it from a Borrower by sending such Bank a copy of the related Notice of B Borrowing. Each time that a Borrower gives a Notice of B Borrowing, such Borrower shall pay to the Agent an auction fee equal to $2000.

(ii) Each Bank may, if in its sole discretion it elects to do so, irrevocably offer to make one or more B Advances to a Borrower as part of such proposed B Borrowing at a rate or rates of interest specified by such Bank in its sole discretion, by notifying the Agent (which shall give prompt notice thereof to such Borrower), before 10:00 A.M. (New York City time) (x) on the date of such proposed B Borrowing, in the case of a Notice of B Borrowing delivered pursuant to clause (A) of paragraph (i) above, and (y) three Business Days before the date of such proposed B Borrowing in the case of a Notice of B Borrowing delivered pursuant to clause (B) of paragraph (i) above, of the minimum amount and maximum amount of each B Advance which such Bank would be willing to make as part of such proposed B Borrowing (which amounts may, subject to the proviso to the first sentence of this Section 2.16(a), exceed such Bank's Commitment to such Borrower), the rate or rates of interest therefor and such Bank's Applicable Lending Office with respect to such B Advance; provided that if the Agent in its capacity as a Bank shall, in its sole discretion, elect to make any such offer, it shall notify such Borrower of such offer before 9:45 A.M. (New York City time) on the date on which notice of such election is to be given to the Agent by the other Banks. If any Bank shall elect not to make such an offer, such Bank shall so notify the Agent, before 10:00 A.M. (New York City time) on the date on which notice of such election is to be given to the Agent by the other Banks, and such Bank shall not be obligated to, and shall not, make any B Advance as part of such B Borrowing; provided that the failure by any Bank to give such notice shall not cause such Bank to be obligated to make any B Advance as part of such proposed B Borrowing.

(iii) The Borrower requesting such proposed B Borrowing shall, in turn, before 11:00 A.M. (New York City time) (x) on the date of such proposed B Borrowing in the case of a Notice of B Borrowing delivered pursuant to clause (A) of paragraph (i) above and (y) three Business Days before the date of such proposed B Borrowing in the case of a Notice of B Borrowing delivered pursuant to clause (B) of paragraph (i) above, either

(A) cancel such B Borrowing by giving the Agent notice to that effect, or

(B) accept one or more of the offers made by any Bank or Banks pursuant to paragraph (ii) above, in order of the lowest to highest rates of interest or margins (or, if two or more Banks bid at the same rates of interest, and the amount of accepted offers is less than the aggregate amount of such offers, the amount to be borrowed from such Banks as part of such B Borrowing shall be allocated among such Banks pro rata on the basis of the maximum amount offered by such Banks at such rates or margin in connection with such B Borrowing), in any aggregate amount up to the aggregate amount initially requested by such Borrower in the relevant Notice of B Borrowing, by giving notice to the Agent of the amount of each B Advance (which amount shall be equal to or greater than the minimum amount, and equal to or less than the maximum amount, notified to such Borrower by the Agent on behalf of such Bank for such B Advance pursuant to paragraph (ii) above) to be made by each Bank as part of such B Borrowing, and reject any remaining offers made by Banks pursuant to paragraph (ii) above by giving the Agent notice to that effect.

(iv) If the Borrower requesting such B Borrowing notifies the Agent that such B Borrowing is cancelled pursuant to paragraph (iii)(A) above, the Agent shall give prompt notice thereof to the Banks and such B Borrowing shall not be made.

(v) If the Borrower requesting such B Borrowing accepts one or more of the offers made by any Bank or Banks pursuant to paragraph (iii)(B) above, the Agent shall in turn promptly notify (A) each Bank that has made an offer as described in paragraph (ii) above, of the date and aggregate amount of such B Borrowing and whether or not any offer or offers made by such Bank pursuant to paragraph (ii) above have been accepted by such Borrower, (B) each Bank that is to make a B Advance as part of such B Borrowing, of the amount of each B Advance to be made by such Bank as part of such B Borrowing, and (C) each Bank that is to make a B Advance as part of such B Borrowing, upon receipt, that the Agent has received forms of documents appearing to fulfill the applicable conditions set forth in Article III. Each Bank that is to make a B Advance as part of such B Borrowing shall, before 12:00 noon (New York City time) on the date of such B Borrowing specified in the notice received from the Agent pursuant to clause (A) of the preceding sentence or any later time when such Bank shall have received notice from the Agent pursuant to clause (C) of the preceding sentence, make available for the account of its Applicable Lending Office to the Agent at its New York address referred to in Section 8.02 such Bank's portion of such B Borrowing, in same day funds. Upon fulfillment of the applicable conditions set forth in Article III and after receipt by the Agent of such funds, the Agent will make such funds available to such Borrower at the Agent's aforesaid address. Promptly after each B Borrowing the Agent will notify each Bank of the amount of the B Borrowing, the Borrower to which such B Borrowing was made, the consequent B Reduction and the dates upon which such B Reduction commenced and will terminate.

(b) Each B Borrowing shall be in an aggregate amount of not less than $5,000,000 or an integral multiple of $1,000,000 in excess thereof. Each Borrower agrees that it will not request a B Borrowing unless, upon the making of such B Borrowing, the limitations set forth in the proviso to the first sentence of Section 2.16(a) are complied with.

(c) Within the limits and on the conditions set forth in this Section 2.16, each Borrower may from time to time borrow under this Section 2.16, repay or prepay pursuant to subsection (d) below, and reborrow under this Section 2.16, provided that a

B Borrowing shall not be made by any Borrower within three Business Days of the date of another B Borrowing to such Borrower.

(d) Each Borrower shall repay to the Agent for the account of each Bank which has made a B Advance to such Borrower, or each other holder of a B Note of such Borrower, on the maturity date of each B Advance made to such Borrower (such maturity date being that specified by such Borrower for repayment of such B Advance in the related Notice of B Borrowing delivered pursuant to subsection (a)(i) above and provided in the B Note evidencing such B Advance) the then unpaid principal amount of such B Advance. No Borrower shall have any right to prepay any principal amount of any B Advance unless, and then only on the terms, specified by such Borrower for such B Advance in the related Notice of B Borrowing delivered pursuant to subsection (a)(i) above and set forth in the B Note evidencing such B Advance.

(e) Each Borrower shall pay interest on the unpaid principal amount of each B Advance made to such Borrower from the date of such B Advance to the date the principal amount of such B Advance is repaid in full, at the rate of interest for such B Advance specified by the Bank making such B Advance in its notice with respect thereto delivered pursuant to subsection (a)(ii) above, payable on the interest payment date or dates specified by such Borrower for such B Advance in the related Notice of B Borrowing delivered pursuant to subsection (a)(i) above, as provided in the B Note evidencing such B Advance.

(f) The indebtedness of each Borrower resulting from each B Advance made to such Borrower as part of a B Borrowing shall be evidenced by a separate B Note of such Borrower payable to the order of the Bank making such B Advance.

(g) The failure of any Bank to make the B Advance to be made by it as part of any B Borrowing shall not relieve any other Bank of its obligation, if any, hereunder to make its B Advance on the date of such B Borrowing, but no Bank shall be responsible for the failure of any other Bank to make the B Advance to be made by such other Bank on the date of any B Borrowing.

Section 2.17. Optional Termination. Notwithstanding anything to the contrary in this Agreement, if (v) any Person (other than a trustee or other fiduciary holding securities under an employee benefit plan of TWC or of any Subsidiary of TWC) or two or more Persons acting in concert (other than any group of employees of TWC or of any of its Subsidiaries) shall have acquired beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934), directly or indirectly, of securities of TWC (or other securities convertible into such securities) representing 20% or more of the combined voting power of all securities of TWC entitled to vote in the election of directors, other than securities having such power only by reason of the happening of a contingency, or (vi) during any period of up to 24 consecutive months, commencing before or after the date of this Agreement, individuals who at the beginning of such 24-month period were directors of TWC or who were elected by individuals who at the beginning of such period were such directors or by individuals elected in accordance with this clause (ii) shall cease for any reason to constitute a majority of the board of directors of TWC, or (vii) any Person (other than TWC or a Wholly-Owned Subsidiary of TWC) or two or more Persons acting in concert shall have acquired by contract or otherwise, or shall have entered into a contract or arrangement which upon consummation will result in its or their acquisition of, the power to exercise, directly or indirectly, a controlling influence over the management or policies of any Borrower; then the Agent shall at the request, or may with the consent, of the holders of at least 66-2/3% in principal amount of the A Notes then outstanding or, if no A Notes are then outstanding, Banks having at least 66-2/3% of the Commitments, by notice to the Borrowers, declare all of the Commitments and the obligation of each Bank to make Advances to be terminated, whereupon all of the Commitments and each such obligation shall forthwith terminate, and no Borrower shall have any further right to borrow hereunder.

Section 2.18. Extension of Termination Date. By notice given to the Agent and the Banks, at least thirty days but not more than forty-five days before July 1 of any year after 2000, the Borrowers may request the Banks to extend the Stated Termination Date for an additional year to a date which is an anniversary date of the Stated Termination Date. Within thirty days after receipt of such request, each Bank that agrees, in its sole and absolute discretion, to so extend the Stated Termination Date shall notify the Borrowers and the Agent that it so agrees, and if all Banks so agree the Stated Termination Date shall be so extended.

Section 2.19. Voluntary Conversion of Advances. Any Borrower may on any Business Day, if no Event of Default then exists as to such Borrower, upon notice (which shall be irrevocable) given to the Agent not later than 11:00 A.M. (x) in the case of a proposed Conversion into Eurodollar Rate Advances, on the third Business Day prior to the date of the proposed conversion, and (y) in the case of a proposed Conversion into Base Rate Advances, on the date of the proposed Conversion, and subject to the provisions of Sections 2.02 and 2.12, Convert all Advances of one Type comprising the same A Borrowing into Advances of the other Type; provided that (i) no Conversion of any Eurodollar Rate Advances shall occur on a day other than the last day of an Interest Period for such Eurodollar Rate Advances, except as contemplated by Section 2.12, and (ii) Advances may not be Converted into Eurodollar Rate Advances if the aggregate unpaid principal amount of the Advances is less than $20,000,000. Each such notice of a Conversion shall, within the restrictions specified above, specify (i) the date of such Conversion, (ii) the A Advances to be Converted, and (iii) if such Conversion is into Eurodollar Rate Advances, the duration of the Interest Period for each such Advance.

Section 2.20. Automatic Provisions.

(a) If any Borrower shall fail to select the duration of any Interest Period for Eurodollar Rate Advances in accordance with the provisions contained in the definition of "Interest Period" in Section 1.01, the Agent will forthwith so notify such Borrower and the Banks, and such Advances will automatically, on the last day of the then existing Interest Period therefor, Convert into Base Rate Advances.

(b) On the date on which the aggregate unpaid principal amount of the Eurodollar Rate Advances of any Borrower shall be reduced to less than $20,000,000, all of such Eurodollar Rate Advances shall automatically Convert into Base Rate Advances.

ARTICLE III

CONDITIONS

Section 3.01. Conditions Precedent to Initial Advances. The obligation of each Bank to make its initial Advance on or after the date hereof is subject to the condition precedent that the Agent shall have received on or before the date hereof, each dated on or before such date, in form and substance satisfactory to the Agent and (except for the Notes) in sufficient copies for each Bank:

(a) The A Notes executed severally by each of the respective Borrowers to the order of each of the respective Banks and this Agreement executed by the Borrowers.

(b) Certified copies of the resolutions of the Board of Directors, or the Executive Committee thereof, of each Borrower authorizing the execution of this Agreement and the Notes to be executed by such Borrower.

(c) A certificate of the Secretary or an Assistant Secretary of each Borrower certifying (i) all changes, if any, that have been made to the Certificate of Incorporation or Bylaws of such Borrower on or after June 15, 1995, and (ii) the names and true signatures of the officers of such Borrower authorized to sign this Agreement, Notices of A Borrowing, Notices of B Borrowing and the Notes to be executed by such Borrower and any other documents to be delivered hereunder by such Borrower.

(d) An opinion of William G. von Glahn, General Counsel of TWC, substantially in the form of Exhibit C hereto and as to such other matters as any Bank through the Agent may reasonably request.

(e) An opinion of Bracewell & Patterson, L.L.P., special counsel to the Agent, substantially in the form of Exhibit D hereto.

(f) A certificate of an officer of each Borrower (other than WPL and WilTel) stating the respective ratings by each of S&P and Moody's of the senior unsecured long-term debt of such Borrower as in effect on the date of this Agreement; a certificate of an officer of WPL stating (and showing the calculation of) the WPL Debt to TNW Ratio as of March 31, 1997; and a certificate of an officer of WilTel stating (and showing the calculation of) the WilTel Debt to EBITDA Ratio as of March 31, 1997.

Section 3.02. Additional Conditions Precedent to Each A Borrowing. The obligation of each Bank to make an A Advance to a Borrower on the occasion of any A Borrowing (including the initial A Borrowing) shall be subject to the further conditions precedent that on the date of such A Borrowing (a) the following statements shall be true (and each of the giving of the applicable Notice of A Borrowing and the acceptance by such Borrower of the proceeds of such A Borrowing shall constitute a representation and warranty by such Borrower that on the date of such A Borrowing such statements are true):

(i) The representations and warranties contained in Section 4.01 pertaining to such Borrower and its Subsidiaries are correct in all material respects on and as of the date of such A Borrowing, before and after giving effect to such A Borrowing and to the application of the proceeds therefrom, as though made on and as of such date,

(ii) No event has occurred and is continuing, or would result from such A Borrowing or from the application of the proceeds therefrom, which constitutes an Event of Default or which would constitute an Event of Default but for the requirement that notice be given or time elapse or both, and

(iii) After giving effect to such A Borrowing and all other Borrowings which have been requested on or prior to such date but which have not been made prior to such date, the aggregate principal amount of all Advances will not exceed the aggregate of the Commitments of the Banks to TWC (computed without regard to any B Reduction);

and (b) the Agent shall have received such other approvals, opinions or documents as any Bank through the Agent may reasonably request.

Section 3.03. Conditions Precedent to Each B Borrowing. The obligation of each Bank which is to make a B Advance to a Borrower on the occasion of a B Borrowing (including the initial B Borrowing) to make such B Advance as part of such B Borrowing is subject to the further conditions precedent that (i) at or before the time required by paragraph (iii) of Section 2.16(a), the Agent shall have received the written confirmatory notice of such B Borrowing contemplated by such paragraph, (ii) on or before the date of such B Borrowing, but prior to such B Borrowing, the Agent shall have received a B Note executed by such Borrower payable to the order of such Bank for each of the one or more B Advances to be made by such Bank as part of such B Borrowing, in a principal amount equal to the principal amount of the B Advance to be evidenced thereby and otherwise on such terms as were agreed to for such B Advance in accordance with Section 2.16, and (iii) on the date of such B Borrowing (a) the following statements shall be true (and each of the giving of the applicable Notice of B Borrowing and the acceptance by such Borrower of the proceeds of such B Borrowing shall constitute a representation and warranty by such Borrower that on the date of such B Borrowing such statements are true):

(1) The representations and warranties contained in Section 4.01 pertaining to such Borrower and its Subsidiaries are correct on and as of the date of such B Borrowing, before and after giving effect to such B Borrowing and to the application of the proceeds therefrom, as though made on and as of such date,

(2) No event has occurred and is continuing, or would result from such B Borrowing or from the application of the proceeds therefrom, which constitutes an Event of Default or which would constitute an Event of Default but for the requirement that notice be given or time elapse or both,

(3) Following the making of such B Borrowing and all other Borrowings to be made on the same day to such Borrower under this Agreement, the aggregate principal amount of all Advances to such Borrower then outstanding will not exceed the aggregate amount of the Commitments to such Borrower (computed without regard to any B Reduction), and

(4) After giving effect to such B Borrowing and all other Borrowings which have been requested on or prior to such date but which have not been made prior to such date, the aggregate principal amount of all Advances will not exceed the aggregate of the Commitments of the Banks to TWC (computed without regard to any B Reduction);

and (b) the Agent shall have received such other approvals, opinions or documents as any Bank through the Agent may reasonably request.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

Section 4.01. Representations and Warranties of the Borrowers. Each Borrower represents and warrants as to itself and its Subsidiaries as follows:

(a) Each Borrower is duly organized or validly formed, validly existing and (if applicable) in good standing under the laws of the State of Delaware and has all corporate or limited liability company 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 such Borrower and its Subsidiaries taken as a whole. Each Subsidiary of each Borrower is duly organized or validly formed, validly existing and (if applicable) 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 such Borrower and its Subsidiaries taken as a whole. Each Subsidiary of a Borrower 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 such Borrower and its Subsidiaries taken as a whole.

(b) The execution, delivery and performance by each Borrower of this Agreement and the Notes and the consummation of the transactions contemplated by this Agreement are within such Borrower's corporate or limited liability company powers, have been duly authorized by all necessary corporate or limited liability company action, do not contravene (i) such Borrower's charter, by-laws, or formation agreement, or (ii) law or any contractual restriction binding on or affecting such Borrower and will not result in or require the creation or imposition of any Lien prohibited by this Agreement. At the time of each borrowing of any Advance by a Borrower, such borrowing and the use of the proceeds of such Advance will be within such Borrower's corporate or limited liability company powers, will have been duly authorized by all necessary corporate or limited liability company action, will not contravene (i) such Borrower's charter, by-laws, or formation agreement, or (ii) law or any contractual restriction binding on or affecting such Borrower and will not result in or require the creation or imposition of any Lien prohibited by this Agreement.

(c) 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 any Borrower of this Agreement or the Notes or the consummation of the transactions contemplated by this Agreement. At the time of each borrowing of any Advance by a Borrower, 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 Advance.

(d) This Agreement has been duly executed and delivered by each Borrower. This Agreement is the legal, valid and binding obligation of each Borrower enforceable against each Borrower 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 A Notes of each Borrower are, and when executed the B Notes of such Borrower will be, the legal, valid and binding obligations of such Borrower enforceable against such Borrower in accordance with their respective 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.

(e) (i) The Consolidated and consolidating balance sheets of TWC and its Subsidiaries as at December 31, 1996, and the related Consolidated and consolidating statements of income and cash flows of TWC and its Subsidiaries for the fiscal year then ended, copies of which have been furnished to each Bank, and the Consolidated and consolidating balance sheets of TWC and its Subsidiaries as at March 31, 1997, and the related Consolidated and consolidating statements of income and cash flows of TWC and its Subsidiaries for the three months then ended, duly certified by an authorized financial officer of TWC, copies of which have been furnished to each Bank, fairly present, subject, in the case of such balance sheets as at March 31, 1997, and such statements of income and cash flows for the three months then ended, to year-end audit adjustments, the Consolidated and consolidating financial condition of TWC and its Subsidiaries as at such dates and the Consolidated and consolidating results of operations of TWC and its Subsidiaries for the year and three month period, respectively, ended on such dates, all in accordance with generally accepted accounting principles consistently applied. Since March 31, 1997, there has been no material adverse change in the condition or operations of TWC or its Subsidiaries.

(ii) The consolidating balance sheets of TWC and its Subsidiaries as at December 31, 1996, and March 31, 1997, referred to in Section 4.01(e)(i), and the related consolidating statements of income and cash flows of TWC and its Subsidiaries for the fiscal year and three months, respectively, then ended referred to in Section 4.01(e)(i), to the extent such balance sheets and statements pertain to NWP, fairly present (subject, in the case of such balance sheet as at March 31, 1997 and such statements of income and cash flows for the three months then ended, to year-end audit adjustments) the Consolidated financial condition of NWP and its Subsidiaries as at such dates and the Consolidated results of operations of NWP and its Subsidiaries for the year and three month period, respectively, ended on such dates, all in accordance with generally accepted accounting principles consistently applied. Since March 31, 1997, there has been no material adverse change in the condition or operations of NWP or its Subsidiaries.

(iii) The Consolidated balance sheet of WPL and its Subsidiaries as at December 31, 1996, and the related Consolidated statement of income and cash flows of WPL and its Subsidiaries for the fiscal year then ended, copies of which have been furnished to each Bank, and the Consolidated balance sheet of WPL and its Subsidiaries as at March 31, 1997, and the related Consolidated statement of income and cash flows of WPL and its Subsidiaries for the three months then ended, duly certified by an authorized financial officer of WPL, copies of which have been furnished to each Bank, fairly present, subject, in the case of such balance sheet as at March 31, 1997, and such statement of income and cash flows for the three months then ended, to year-end audit adjustments, the Consolidated financial condition of WPL and its Subsidiaries as at such dates and the Consolidated results of operations of WPL and its Subsidiaries for the year and three month period, respectively, ended on such dates, all in accordance with generally accepted accounting principles consistently applied. Since March 31, 1997, there has been no material adverse change in the condition or operations of WPL or its Subsidiaries.

(iv) The Consolidated balance sheet of TGPL and its Subsidiaries as at December 31, 1996, and the related Consolidated statement of income and cash flows of TGPL and its Subsidiaries for the fiscal year then ended, copies of which have been furnished to each Bank, and the Consolidated balance sheet of TGPL and its Subsidiaries as at March 31, 1997, and the related Consolidated statement of income and cash flows of TGPL and its Subsidiaries for the three months then ended, duly certified by an authorized financial officer of TGPL, copies of which have been furnished to each Bank, fairly present, subject, in the case of such balance sheet as at March 31, 1997, and such statement of income and cash flows for the three months then ended, to year-end audit adjustments, the Consolidated financial condition of TGPL and its Subsidiaries as at such dates and the Consolidated results of operations of TGPL and its Subsidiaries for the year and three month period, respectively, ended on such dates, all in accordance with generally accepted accounting principles consistently applied. Since March 31, 1997, there has been no material adverse change in the condition or operations of TGPL or its Subsidiaries.

(v) The Consolidated balance sheet of TGT and its Subsidiaries as at December 31, 1996, and the related Consolidated statement of income and cash flows of TGT and its Subsidiaries for the fiscal year then ended, copies of which have been furnished to each Bank, and the Consolidated balance sheet of TGT and its Subsidiaries as at March 31, 1997, and the related Consolidated statement of income and cash flows of TGT and its Subsidiaries for the three months then ended, duly certified by an authorized financial officer of TGT, copies of which have been furnished to each Bank, fairly present, subject, in the case of such balance sheet as at March 31, 1997, and such statement of income and cash flows for the three months then ended, to year-end audit adjustments, the Consolidated financial condition of TGT and its Subsidiaries as at such dates and the Consolidated results of operations of TGT and its Subsidiaries for the year and three month period, respectively, ended on such dates, all in accordance with generally accepted accounting principles consistently applied. Since March 31, 1997, there has been no material adverse change in the condition or operations of TGT or its Subsidiaries.

(vi) The Consolidated balance sheet of WHD and its Subsidiaries as at December 31, 1996, and the related Consolidated statement of income and cash flows of WHD and its Subsidiaries for the fiscal year then ended, copies of which have been furnished to each Bank, and the Consolidated balance sheet of WHD and its Subsidiaries as at March 31, 1997, and the related Consolidated statement of income and cash flows of WHD and its Subsidiaries for the three months then ended, duly certified by an authorized financial officer of WHD, copies of which have been furnished to each Bank, fairly present, subject, in the case of such balance sheet as at March 31, 1997, and such statement of income and cash flows for the three months then ended, to year-end audit adjustments, the Consolidated financial condition of WHD and its Subsidiaries as at such dates and the Consolidated results of operations of WHD and its Subsidiaries for the year and three month period, respectively, ended on such dates, all in accordance with generally accepted accounting principles consistently applied. Since March 31, 1997, there has been no material adverse change in the condition or operations of WHD or its Subsidiaries.

(vii) The Consolidated balance sheet of Williams Telecommunications Systems, Inc. ("WTS"), a predecessor of WilTel, as at December 31, 1996, and the related Consolidated statement of income and cash flows of WTS for the fiscal year then ended, copies of which have been furnished to each Bank, and the Consolidated balance sheet of WTS as at March 31, 1997, and the related Consolidated statement of income and cash flows of WTS for the three months then ended, duly certified by an authorized financial officer of WTS, copies of which have been furnished to each Bank, fairly present, subject, in the case of such balance sheet as at March 31, 1997, and such statement of income and cash flows for the three months then ended, to year-end audit adjustments, the Consolidated financial condition of WTS as at such dates and the Consolidated results of operations of WTS for the year and three month period, respectively, ended on such dates, all in accordance with generally accepted accounting principles consistently applied. From March 31, 1997, to April 30, 1997, there was no material adverse change in the condition or operations of WTS, which was merged into WilTel on April 30, 1997. Since May 1, 1997, there has been no material adverse change in the condition or operations of WilTel.

(f) Except as set forth in the Public Filings or as otherwise disclosed in writing by a Borrower to the Banks and the Agent after the date hereof and approved by the Majority Banks, there is, as to each Borrower, no pending or, to the knowledge of such Borrower, threatened action or proceeding affecting such Borrower or any Subsidiary of such Borrower before any court, governmental agency or arbitrator, which could reasonably be expected to materially and adversely affect the financial condition or operations of such Borrower and its Subsidiaries taken as a whole or which purports to affect the legality, validity, binding effect or enforceability of this Agreement or any Note.

(g) No proceeds of any Advance will be used for any purpose or in any manner not permitted by Section 5.02(k).

(h) No Borrower is 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

Advance will be used to purchase or carry any such margin stock (other than purchases of common stock expressly permitted by Section 5.02(k)) 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 Advance, not more than 25% of the value of the assets of any Borrower will be represented by such margin stock and not more than 25% of the value of the assets of any Borrower and its Subsidiaries will be represented by such margin stock.

(i) No Borrower is an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(j) No Termination Event has occurred or is reasonably expected to occur with respect to any Plan for which an Insufficiency exists. No Borrower nor any ERISA Affiliate of any Borrower has received any notification that any Multiemployer Plan is in reorganization or has been terminated, within the meaning of Title IV of ERISA, and no Borrower is 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.

(k) As of the date of this Agreement, the United States federal income tax returns of each Borrower (other than WHD and WilTel) and the material Subsidiaries of each Borrower (other than Subsidiaries not in existence on December 31, 1989) have been examined through the fiscal year ended December 31, 1989. Each Borrower and the Subsidiaries of each Borrower 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 any Borrower or any such Subsidiary, other than those taxes contested in good faith by appropriate proceedings. The charges, accruals and reserves on the books of each Borrower and the material Subsidiaries of each Borrower in respect of taxes are adequate.

(l) No Borrower is 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.

(m) Except as set forth in the Public Filings or as otherwise disclosed in writing by a Borrower to the Banks and the Agent after the date hereof and approved by the Majority Banks, the Borrowers and their respective 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 by a Borrower to the Banks and the Agent after the date hereof and approved by the Majority Banks, the aggregate contingent and non-contingent liabilities of each Borrower and its Subsidiaries (other than those reserved for in accordance with generally accepted accounting principles and set forth in the financial statements regarding such Borrower referred to in Section 4.01(e) and delivered to each Bank) which are reasonably expected to arise in connection with (i) the requirements of Environmental Protection Statutes or (ii) 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 such Borrower (excluding liabilities to the extent covered by insurance if the insurer has confirmed that such insurance covers such liabilities or which such Borrower reasonably expects to recover from ratepayers).

ARTICLE V

COVENANTS OF THE BORROWERS

Section 5.01. Affirmative Covenants. So long as any Note shall remain unpaid or any Bank shall have any Commitment to any Borrower hereunder, each Borrower will, unless the Majority Banks shall otherwise consent in writing:

(a) Compliance with Laws, Etc. 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 such Borrower 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 no Borrower nor any Subsidiary of a Borrower 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 generally accepted accounting principles, if required by such principles, have been provided on the books of such Borrower or such Subsidiary, as the case may be.

(b) Reporting Requirements. Furnish to each of the Banks:

(i) as soon as possible and in any event within five days after the occurrence of each Event of Default or each event which, with the giving of notice or lapse of time or both, would constitute an Event of Default, continuing on the date of such statement, a statement of an authorized financial officer of such Borrower setting forth the details of such Event of Default or event and the actions, if any, which such Borrower has taken and proposes to take with respect thereto;

(ii) as soon as available and in any event not later than 60 days after the end of each of the first three quarters of each fiscal year of such Borrower, the Consolidated balance sheets of such Borrower and its Subsidiaries as of the end of such quarter and the Consolidated statements of income and cash flows of such Borrower 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 such Borrower as having been prepared in accordance with generally accepted accounting principles, together with a certificate of said officer (a) stating that he has no knowledge that an Event of Default, or an event which, with notice or lapse of time or both, would constitute an Event of Default has occurred and is continuing or, if an Event of Default or such an event has occurred and is continuing, a statement as to the nature thereof and the action, if any, which such Borrower proposes to take with respect thereto, and (b) showing in detail the calculation supporting such statement in respect of Section 5.02(b);

(iii) as soon as available and in any event not later than 105 days after the end of each fiscal year of such Borrower, a copy of the annual audit report for such year for such Borrower and its Subsidiaries, including therein Consolidated balance sheets of such Borrower and its Subsidiaries as of the end of such fiscal year and Consolidated statements of income and cash flows of such Borrower and its Subsidiaries for such fiscal year, in each case prepared in accordance with generally accepted accounting principles and certified by Ernst & Young, LLP or other independent certified public accountants of recognized standing acceptable to the Majority Banks, together with a certificate of such accounting firm to the Banks (a) stating that, in the course of the regular audit of the business of such Borrower 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 an Event of Default or an event which, with notice or lapse of time or both, would constitute an Event of Default, has occurred and is continuing, or if, in the opinion of such accounting firm, an Event of Default or such an event has occurred and is continuing, a statement as to the nature thereof, and (b) showing in detail the calculations supporting such statement in respect of Section 5.02(b); provided, however, that in the case of NWP the primary audited financial statements required by this Section 5.01(b)(iii) may be presented on a historical cost basis, but such audited financial statements shall include, as additional information, on a push-down basis reflecting the purchase price of NWP paid by TWC, a Consolidated balance sheet, a Consolidated statement of income and a Consolidated cash flow statement of NWP and its Subsidiaries as of the end of and for the relevant fiscal year, all prepared in accordance with generally accepted accounting principles but excluding footnotes for the push-down financial statements;

(iv) such other information respecting the business or properties, or the condition or operations, financial or otherwise, of such Borrower or any of its material Subsidiaries as any Bank through the Agent may from time to time reasonably request;

(v) promptly after the sending or filing thereof, copies of all proxy material, reports and other information which such Borrower sends to any of its security holders, and copies of all final reports and final registration statements which such Borrower or any material Subsidiary of such Borrower files with the Securities and Exchange Commission or any national securities exchange;

(vi) as soon as possible and in any event (A) within 30 Business Days after such Borrower or any ERISA Affiliate of such Borrower knows or has reason to know that any Termination Event described in clause (i) of the definition of Termination Event with respect to any Plan has occurred and (B) within 30 Business Days after such Borrower or any ERISA Affiliate of such Borrower 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 such Borrower describing such Termination Event and the action, if any, which such Borrower or such ERISA Affiliate of such Borrower proposes to take with respect thereto;

(vii) promptly and in any event within 25 Business Days after receipt thereof by such Borrower or any ERISA Affiliate of such Borrower, copies of each notice received by such Borrower or any ERISA Affiliate of such Borrower from the PBGC stating its intention to terminate any Plan or to have a trustee appointed to administer any Plan;

(viii) within 30 days following request therefor by any Bank, copies of each Schedule B (Actuarial Information) to each annual report (Form 5500 Series) of such Borrower or any ERISA Affiliate of such Borrower with respect to each Plan;

(ix) promptly and in any event within 25 Business Days after receipt thereof by such Borrower or any ERISA Affiliate of such Borrower from the sponsor of a Multiemployer Plan, a copy of each notice received by such Borrower or any ERISA Affiliate of such Borrower concerning (A) the imposition of a Withdrawal Liability by a Multiemployer Plan, (B) the determination that a Multiemployer Plan is, or is expected to be, in reorganization within the meaning of Title IV of ERISA, (C) the termination of a Multiemployer Plan within the meaning of Title IV of ERISA, or (D) the amount of liability incurred, or expected to be incurred, by such Borrower or any ERISA Affiliate of such Borrower in connection with any event described in clause (A), (B) or (C) above;

(x) not more than 60 days (or 105 days in the case of the last fiscal quarter of a fiscal year of such Borrower) after the end of each fiscal quarter of such Borrower, a certificate of an authorized financial officer of such Borrower (a) stating the respective ratings, if any, by each of S&P and Moody's of the senior unsecured long-term debt of such Borrower as of the last day of such quarter, (b) if such Borrower is WPL and WPL is Unrated, stating (and showing the calculation of) the WPL Debt to TNW Ratio on the last day of such quarter, and (c) if such Borrower is WilTel and WilTel is Unrated, stating (and showing the calculation of) the WilTel Debt to EBITDA Ratio on the last day of such quarter; and

(xi) promptly after any withdrawal or termination of the letter referred to in the second to last sentence of Section 1.05 or any change in the indicated rating set forth therein or any change in, or issuance, withdrawal or termination of, the rating of any senior unsecured long-term debt of such Borrower by S&P or Moody's, notice thereof.

(c) Maintenance of Insurance. 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 such Borrower or its Subsidiaries operate, provided that such Borrower 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.

(d) Preservation of Corporate Existence, Etc. 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 (1) in the case of any Non-Borrowing Subsidiary of such Borrower, 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 such Borrower and its Subsidiaries taken as a whole and (2) in the case of such Borrower, where the failure of such Borrower 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 such Borrower and its Subsidiaries taken as a whole.

Section 5.02. Negative Covenants. So long as any Note shall remain unpaid or any Bank shall have any Commitment to any Borrower hereunder, no Borrower will, without the written consent of the Majority Banks:

(a) Liens, Etc. 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, except that:

(i) TWC and its Non-Borrowing Subsidiaries which are not Subsidiaries of any other Borrower may create, incur, assume or suffer to exist Permitted TWC Liens;

(ii) WHD and its Non-Borrowing Subsidiaries which are not Subsidiaries of any other Borrower (other than TWC) may create, incur, assume or suffer to exist Permitted WHD Liens;

(iii) NWP and its Non-Borrowing Subsidiaries may create, incur, assume or suffer to exist Permitted NWP Liens;

(iv) TGPL and its Non-Borrowing Subsidiaries may create, incur, assume or suffer to exist Permitted TGPL Liens;

(v) TGT and its Non-Borrowing Subsidiaries may create, incur, assume or suffer to exist Permitted TGT Liens; and

(vi) WPL and its Non-Borrowing Subsidiaries may create, incur, assume or suffer to exist Permitted WPL Liens.

(vii) WilTel and its Non-Borrowing Subsidiaries may create, incur, assume or suffer to exist Permitted WilTel Liens.

(b) Debt. (i) In the case of TWC, permit the ratio of (A) the aggregate amount of all Debt of TWC and its Subsidiaries on a Consolidated basis to (B) the sum of the Consolidated Net Worth of TWC plus the aggregate amount of all Debt of TWC and its Subsidiaries on a Consolidated basis to exceed 0.65 to 1.0 at any time;

(ii) In the case of WHD, permit the ratio of (A) the aggregate amount of all Debt of WHD and its Subsidiaries on a Consolidated basis to (B) the sum of the Consolidated Net Worth of WHD plus the aggregate amount of all Debt of WHD and its Subsidiaries on a Consolidated basis to exceed 0.55 to 1.0 at any time; and

(iii) In the case of any Borrower (other than TWC and WHD), permit the ratio of (A) the aggregate amount of all Debt of such Borrower and its Subsidiaries on a Consolidated basis to (B) the sum of the Consolidated Net Worth of such Borrower plus the aggregate amount of all Debt of such Borrower and its Subsidiaries on a Consolidated basis to exceed 0.60 to 1.0 at any time.

(c) Merger and Sale of Assets. 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 5.02(c) shall not prohibit:

(i) any Borrower and its Subsidiaries from selling, leasing or otherwise transferring their respective assets in the ordinary course of business;

(ii) any merger, consolidation or sale, lease or other transfer of assets involving only TWC and its Subsidiaries; provided, however, that transactions under this paragraph (ii) shall be permitted if, and only if, (x) there shall not exist or result an Event of Default or an event which with notice or lapse of time or both would constitute an Event of Default and (y) in the case of each transaction referred to in this paragraph (ii) involving any Borrower or any of its Subsidiaries, such transaction could not reasonably be expected to impair materially the ability of such Borrower to perform its obligations hereunder and under the Notes and such Borrower shall continue to exist;

(iii) any Borrower 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 TWC or to any Subsidiary of TWC for consideration that is not materially less than the net book value of such assets and facilities; provided, however, that transactions under this paragraph (iii) shall be permitted if, and only if, there shall not exist or result an Event of Default or an event which with notice or lapse of time or both would constitute an Event of Default;

(iv) any sale and lease-back of cushion gas by any Borrower or any of its Subsidiaries or any sale and lease-back of inventory by WPL or any of its Subsidiaries (other than another Borrower);

(v) sales of receivables of any kind; or

(vi) any sale, lease or other transfer of any stock or assets of Transco Energy Company and its Subsidiaries; provided, however, that transactions under this paragraph (vi) shall be permitted if, and only if, prior to the time of such transaction Transco Energy Company and its Subsidiaries shall have transferred to TWC all of their respective interests in TGPL and TGT and shall not have reacquired any such interest and there shall not exist or result an Event of Default or an event which with notice or lapse of time or both would constitute an Event of Default.

(d) Agreements to Restrict Dividends and Certain Transfers. 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 TWC (i) 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 TWC or to any Subsidiary of TWC; or (ii) to make loans or advances to TWC or any Subsidiary of TWC, except (1) encumbrances and restrictions on any immaterial Non- Borrowing Subsidiary of TWC (other than WNG and WFS), (2) those encumbrances and restrictions existing on the date hereof and described in Exhibit E, (3) other encumbrances and restrictions now or hereafter existing of any Borrower or any of its Non-Borrowing Subsidiaries that are not more restrictive in any material respect than the encumbrances and restrictions with respect to such Borrower or its Non-Borrowing Subsidiaries described in Exhibit E, and (4) any encumbrances and restrictions created in connection with any sale and lease-back of cushion gas by any Borrower or any Subsidiary of any Borrower or any sale and lease-back of inventory by WPL or any of its Subsidiaries (other than another Borrower).

(e) Loans and Advances. Borrow or otherwise receive any loan or advance from TWC, and TWC will 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 TWC, except that TWC 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

TWC 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 TWC to which such loan or advance is made, bears interest at TWC's or such Subsidiary's market rate of interest and matures on or before the Termination Date.

(f) Maintenance of Ownership of Certain Subsidiaries. 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 (1) WHD, WNG, WFS, WPL, TGPL, TGT or NWP or any of their respective material Subsidiaries or (2) any Subsidiary of TWC at the time it owns any shares of or any interest in any shares of the capital stock of WHD, WNG, WFS, WPL, TGPL, TGT or NWP or any of their respective material Subsidiaries; provided, however, that, this Section 5.02(f) shall not prohibit the sale or other disposition of the stock of any Subsidiary of TWC to TWC or any Wholly-Owned Subsidiary of TWC if, but only if, (x) there shall not exist or result an Event of Default or an event which with notice or lapse of time or both would constitute an Event of Default and (y) in the case of each sale or other disposition referred to in this proviso involving any Borrower or any of its Subsidiaries, such sale or other disposition could not reasonably be expected to impair materially the ability of such Borrower to perform its obligations hereunder and under the Notes and such Borrower shall continue to exist.

(g) Compliance with ERISA. (i) Terminate, or permit any ERISA Affiliate of such Borrower to terminate, any Plan so as to result in any liability of such Borrower or any such ERISA Affiliate to the PBGC in excess of $5,000,000, or (ii) 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.

(h) Transactions with Related Parties. 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 material Subsidiary of such Borrower 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 such Borrower 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 such Borrower or such Subsidiary in the good faith judgment of such Borrower.

(i) Guarantees. 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 TWC (other than Williams Energy Company and its Subsidiaries which are not Borrowers) while an Event of Default is continuing.

(j) Sale and Lease-Back Transactions. Enter into, or permit any of its Subsidiaries to enter into, any Sale and Lease-Back Transaction, if after giving effect thereto such Borrower would not be permitted to incur at least $1.00 of additional Debt secured by a Lien permitted by (i) paragraph (z) of Schedule III in the case of NWP and its Subsidiaries, (ii) paragraph (z) of Schedule VI in the case of TWC and its Non-Borrowing Subsidiaries which are not Subsidiaries of any other Borrower, (iii) paragraph (z) of Schedule IV in the case of TGPL and its Subsidiaries, (iv) paragraph (z) of Schedule V in the case of TGT and its Subsidiaries, (v) paragraph (i) of Schedule VII in the case of WPL and its Subsidiaries, (vi) paragraph (z) of Schedule VIII in the case of WHD and its Subsidiaries, and (vii) paragraph (   ) of Schedule IX in the case of WilTel and its Subsidiaries.

(k) Use of Proceeds. Use any proceeds of any Advance for any purpose other than general corporate purposes (including, without limitation, repurchases by TWC 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 Advance 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 Advance will be used to purchase or carry any margin stock (within the meaning of Regulation G or Regulation U issued by the Board of Governors of the Federal Reserve System), except purchases by TWC of its capital stock if, after giving effect thereto, none of the Advances would constitute purpose credit within the meaning of such Regulation U or purpose credit within the meaning of such Regulation G.

ARTICLE VI

EVENTS OF DEFAULT

Section 6.01. Events of Default. If any of the following events ("Events of Default") shall occur and be continuing:

(a) Any Borrower shall fail to pay any principal of any Note executed by it when the same becomes due and payable, or shall fail to pay any interest on any such Note or any fee or other amount to be paid by it hereunder within ten days after the same becomes due and payable; or

(b) Any certification, representation or warranty made by any Borrower herein or by any Borrower (or any officer of any Borrower) in writing under or in connection with any Note or this Agreement (including, without limitation, representations and warranties deemed made pursuant to Section 3.02 or 3.03) shall prove to have been incorrect in any material respect when made or deemed made; or

(c) Any Borrower shall fail to perform or observe (i) any term, covenant or agreement contained in Section 5.01(b) on its part to be performed or observed and such failure shall continue for five Business Days after the earlier of the date notice thereof shall have been given to such Borrower by the Agent or any Bank or the date such Borrower 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 5.01(b)) or any Note on its part to be performed or observed; or

(d) Any Borrower or any Subsidiary of any Borrower 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 (excluding Debt evidenced by the Notes) of such Borrower 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 required pursuant to an illegality event of the type set forth in Section 2.12), prior to the stated maturity thereof; provided, however, that the provisions of this Section 6.01(d) shall not apply to any Non-Recourse Debt of any Subsidiary of a Borrower; or

(e) Any Borrower or any material Subsidiary of any Borrower 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 any Borrower or any material Subsidiary of any Borrower seeking to adjudicate it a 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 30 days; or any Borrower or any material Subsidiary of any Borrower shall take any action to authorize any of the actions set forth above in this subsection (e); or

(f) Any judgment or order for the payment of money in excess of $60,000,000 shall be rendered against any Borrower or any material Subsidiary of any Borrower 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 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; or

(g) Any Termination Event with respect to a Plan shall have occurred and, 30 days after notice thereof shall have been given to any Borrower by the 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 (ii) 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

(h) Any Borrower or any ERISA Affiliate of any Borrower 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 in the aggregate or requires payments exceeding $10,000,000 per annum; or

(i) Any Borrower or any ERISA Affiliate of any Borrower 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 Borrowers and their respective 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;

then, and in any such event, the Agent (i) shall at the request, or may with the consent, of the holders of at least 66-2/3% in principal amount of the A Notes then outstanding or, if no A Notes are then outstanding, Banks having at least 66-2/3% of the Commitments, by notice to the Borrowers, declare all of the Commitments and the obligation of each Bank to make Advances to be terminated, whereupon all of the Commitments and each such obligation shall forthwith terminate, and (ii) shall at the request, or may with the consent, of the holders of at least 66-2/3% in principal amount of the A Notes then outstanding or if no A Notes are then outstanding, Banks having at least 66-2/3% of the Commitments, or, if no A Notes are then outstanding and all Commitments have terminated, the holders of at least 66-2/3% in principal amount of the B Notes then outstanding, by notice to the Borrower as to which an Event of Default exists (determined as contemplated by the definition herein of Events of Default), declare the Notes of such Borrower, all interest thereon and all other amounts payable by such Borrower under this Agreement to be forthwith due and payable, whereupon such Notes, such interest and all such amounts shall become and be forthwith due and payable, without requirement of any presentment, demand, protest, notice of intent to accelerate, further notice of acceleration or other further notice of any kind (other than the notice expressly provided for above), all of which are hereby expressly waived by each Borrower; provided, however, that in the event of any Event of Default described in Section 6.01(e), (A) the obligation of each Bank to make Advances shall automatically be terminated and (B) the Notes, all such interest and all such amounts shall automatically become and be due and payable, without presentment, demand, protest, notice of intent to accelerate, notice of acceleration or any other notice of any kind, all of which are hereby expressly waived by each Borrower.

ARTICLE VII

THE AGENT

Section 7.01. Authorization and Action. Each Bank hereby appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms hereof, together with such powers as are reasonably incidental thereto. As to any matters not expressly provided for by this Agreement (including, without limitation, enforcement or collection of the Notes), the Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of holders of at least 66-2/3% in principal amount of the A Notes then outstanding or, if no A Notes are then outstanding, Banks having at least 66-2/3% of the Commitments (or, if no A Notes are then outstanding and all Commitments have terminated, upon the instructions of holders of at least 66-2/3% in principal amount of the B Notes then outstanding), and such instructions shall be binding upon all Banks and all holders of Notes; provided, however, that the Agent shall not be required to take any action which exposes the Agent to personal liability or which is contrary to any Note, this Agreement or applicable law. The Agent agrees to give to each Bank prompt notice of each notice given to it by any Borrower pursuant to the terms of this Agreement.

Section 7.02. Agent's Reliance, Etc. Neither the Agent nor any of its directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with any Note or this Agreement, except for its or their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, the Agent: (i) may treat the payee of any Note as the holder thereof until the Agent receives and accepts a Transfer Agreement executed by a Borrower, the Bank which is the payee of such Note, as assignor, and the assignee in accordance with the last sentence of Section 8.06(a); (ii) may consult with legal counsel (including counsel for any Borrower), independent public accountants and other experts selected by it 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; (iii) makes no warranty or representation to any Bank and shall not be responsible to any Bank for any statements, warranties or representations (whether written or oral) made in or in connection with any Note or this Agreement; (iv) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of any Note or this Agreement on the part of any Borrower or to inspect the property (including the books and records) of any Borrower; (v) shall not be responsible to any Bank for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of any Note or this Agreement or any other instrument or document furnished pursuant hereto; and (vi) shall incur no liability under or in respect of any Note or this Agreement by acting upon any notice, consent, certificate or other instrument or writing (which may be by telecopier, telegram, cable or telex) believed by it to be genuine and signed or sent by the proper party or parties.

Section 7.03. Citibank and Affiliates. With respect to its Commitments, the Advances made by it and the Notes issued to it, Citibank shall have the same rights and powers under any Note and this Agreement as any other Bank and may exercise the same as though it was not the Agent; and the term "Bank" or "Banks" shall, unless otherwise expressly indicated, include Citibank in its individual capacity. Citibank and its affiliates may accept deposits from, lend money to, act as trustee under indentures of, and generally engage in any kind of business with, any Borrower, any Subsidiary of any Borrower, any Person who may do business with or own, directly or indirectly, securities of any Borrower or any such Subsidiary and any other Person, all as if Citibank were not the Agent and without any duty to account therefor to the Banks.

Section 7.04. Bank Credit Decision. Each Bank acknowledges that it has, independently and without reliance upon the Agent or any other Bank and based on the financial statements referred to in Section 4.01(e) and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Bank also acknowledges that it will, independently and without reliance upon the Agent or any other Bank 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 Note or this Agreement.

Section 7.05. Indemnification. The Banks agree to indemnify the Agent (to the extent not reimbursed by the Borrowers), ratably according to the respective principal amounts of the A Notes then held by each of them (or if no A Notes are at the time outstanding or if any A Notes are held by Persons which are not Banks, ratably according to either (i) the respective amounts of their Commitments to TWC, or (ii) if all Commitments to TWC have terminated, the respective amounts of the Commitments to TWC immediately prior to the time the Commitments to TWC terminated), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against the Agent in any way relating to or arising out of any Note or this Agreement or any action taken or omitted by the Agent under any Note or this Agreement, provided that no Bank shall be liable to the Agent for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Agent's gross negligence or willful misconduct. Without limitation of the foregoing, each Bank agrees to reimburse the Agent promptly upon demand for its ratable share of any out-of-pocket expenses (including counsel fees) incurred by the Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, any Note or this Agreement to the extent that the Agent is not reimbursed for such expenses by the Borrowers.

Section 7.06. Successor Agent. The Agent may resign at any time as Agent under this Agreement by giving written notice thereof to the Banks and the Borrowers and may be removed at any time with or without cause by the Majority Banks. Upon any such resignation or removal, the Majority Banks shall have the right to appoint, with the consent of TWC (which consent shall not be unreasonably withheld), a successor Agent from among the Banks. If no successor Agent shall have been so appointed by the Majority Banks with such consent, and shall have accepted such appointment, within 30 days after the retiring Agent's giving of notice of resignation or the Majority Banks' removal of the retiring Agent, then the retiring Agent may, on behalf of the Banks, appoint a successor Agent, which shall be a Bank which is a commercial bank organized under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least $500,000,000. Upon the acceptance of any appointment as Agent under this Agreement by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent and shall function as the Agent under this Agreement, and the retiring Agent shall be discharged from its duties and obligations as Agent under this Agreement. After any retiring Agent's resignation or removal hereunder as Agent, the provisions of this Article VII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

Section 7.07. Liability of Co-Agents. No Co-Agent, in its capacity as Co-Agent hereunder, shall have any duty or liability hereunder.

ARTICLE VIII

MISCELLANEOUS

Section 8.01. Amendments, Etc. No amendment or waiver of any provision of any Note or this Agreement, nor consent to any departure by any Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Majority Banks, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver or consent shall, unless in writing and signed by all the Banks, do any of the following: (a) waive any of the conditions specified in Article III, (b) increase the Commitments of the Banks or subject the Banks to any additional obligations, (c) reduce the principal of, or interest on, the Notes or any fees or other amounts payable hereunder, (d) postpone any date fixed for any payment of principal of, or interest on, the Notes or any fees or other amounts payable hereunder, (e) take any action which requires the signing of all the Banks pursuant to the terms of this Agreement, (f) change the percentage of the Commitments or of the aggregate unpaid principal amount of the A Notes or B Notes, or the number of Banks, which shall be required for the Banks or any of them to take any action under this Agreement, or (g) amend this Section 8.01; and provided, further, that no amendment, waiver or consent shall, unless in writing and signed by the Agent in addition to the Banks required above to take such action, affect the rights or duties of the Agent under any Note or this Agreement.

Section 8.02. Notices, Etc. All notices and other communications provided for hereunder shall be in writing (including telecopy, telegraphic, telex or cable communication) and mailed, telecopied, telegraphed, telexed, cabled or delivered, if to any Bank, as specified opposite its name on Schedule I hereto or specified pursuant to Section 8.06(a); if to any Borrower, as specified opposite its name on Schedule II hereto; and if to Citibank, as Agent, to its address at 399 Park Avenue, New York, New York 10043, (telecopier number: (212) 527-1084), Attention: John Sahr, with a copy to Citicorp North America, Inc., 1200 Smith Street, Suite 2000, Houston, Texas 77002 (telecopier number: (713) 654-2849; telex number 127001 (Attn: Route Code HOUAA)), Attention: The Williams Companies, Inc. Account Officer; or, as to any Borrower or the Agent, at such other address as shall be designated by such party in a written notice to the other parties and, as to each other party, at such other address as shall be designated by such party in a written notice to the Borrowers and the Agent. All such notices and communications shall, when mailed, telecopied, telegraphed, telexed or cabled, be effective when received in the mail, sent by telecopier to any party to the telecopier number as set forth herein or on Schedule I or Schedule II or specified pursuant to Section 8.06(a) (or other telecopy number specified by such party in a written notice to the other parties hereto), delivered to the telegraph company, telexed to any party to the telex number set forth herein or on Schedule I or Schedule II or specified pursuant to Section 8.06(a) (or other telex number designated by such party in a written notice to the other parties hereto), confirmed by telex answerback, or delivered to the cable company, respectively, except that notices and communications to the Agent shall not be effective until received by the Agent.

Section 8.03. No Waiver; Remedies. No failure on the part of any Bank or the Agent to exercise, and no delay in exercising, any right under any Note or this Agreement shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies provided in any Note and this Agreement are cumulative and not exclusive of any remedies provided by law.

Section 8.04. Costs, Expenses and Taxes. (a)(i) TWC agrees to pay on demand all reasonable out-of-pocket costs and expenses of the Arranger and the Agent in connection with the preparation, execution, delivery, administration, modification and amendment of this Agreement, the Notes and the other documents to be delivered under this Agreement, including, without limitation, the reasonable fees and out-of-pocket expenses of counsel for the Agent with respect thereto and with respect to advising the Agent as to its rights and responsibilities under any Note and this Agreement, and (ii) each Borrower agrees to pay on demand all costs and expenses, if any (including, without limitation, reasonable counsel fees and expenses, which may include allocated costs of in-house counsel), of the Agent and each Bank in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) against such Borrower of any Note of such Borrower or this Agreement and the other documents to be delivered by such Borrower under this Agreement.

(b) If any payment (or purchase pursuant to Section 2.11(c) or Section 8.06(b)) of principal of, or Conversion of, any Eurodollar Rate Advance or B Advance made to any Borrower is made other than on the last day of an Interest Period relating to such Advance (or in the case of a B Advance, other than on the original scheduled maturity date thereof), as a result of a payment pursuant to Section 2.10 or 2.12 or acceleration of the maturity of the Notes pursuant to Section 6.01 or for any other reason or as a result of any such purchase or any Conversion, such Borrower shall, upon demand by any Bank (with a copy of such demand to the Agent), pay to the Agent for the account of such Bank any amounts required to compensate such Bank for any additional losses, costs or expenses which it may reasonably incur as a result of any such payment, purchase or Conversion, including, without limitation, any loss, cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Bank to fund or maintain such Advance.

(c) Each Borrower agrees, to the fullest extent permitted by law, to indemnify and hold harmless the Agent, the Arranger and each Bank and each of their respective directors, officers, employees and agents from and against any and all claims, damages, liabilities and out-of-pocket expenses (including, without limitation, reasonable fees and disbursements of counsel) for which any of them may become liable or which may be incurred by or asserted against the Agent, the Arranger or such Bank or any such director, officer, employee or agent (other than by another Bank or any successor or assign of another Bank), in each case in connection with or arising out of or by reason of any investigation, litigation, or proceeding, whether or not the Agent, the Arranger or such Bank or any such director, officer, employee or agent is a party thereto, arising out of, related to or in connection with this Agreement or the Notes or any transaction in which any proceeds of all or any part of the Advances are applied (other than any such claim, damage, liability or expense to the extent attributable to the gross negligence or willful misconduct of, or violation of any law or regulation by, either the party seeking indemnity under this Section 8.04(c) or any of its directors, officers, employees or agents).

Section 8.05. Right of Set-off. Upon (i) the occurrence and during the continuance of any Event of Default and (ii) the making of the request or the granting of the consent specified by Section 6.01 to authorize the Agent to declare the Notes of a Borrower due and payable pursuant to the provisions of Section 6.01, each Bank is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Bank to or for the credit or the account of such Borrower against any and all of the obligations of such Borrower now or hereafter existing under this Agreement and the Notes held by such Bank, irrespective of whether or not such Bank shall have made any demand under this Agreement or such Notes and although such obligations may be unmatured. Each Bank agrees promptly to notify such Borrower after such set-off and application made by such Bank, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Bank under this Section are in addition to other rights and remedies (including, without limitation, other rights of set-off) which such Bank may have.

Section 8.06. Binding Effect; Transfers. (a) This Agreement shall become effective when it shall have been executed by the Borrowers and the Agent and when each Bank listed on the signature pages hereof has delivered an executed counterpart hereof to the Agent, has sent to the Agent a facsimile copy of its signature hereon or has notified the Agent that such Bank has executed this Agreement and thereafter shall be binding upon and inure to the benefit of the Borrowers, the Agent and each Bank and their respective successors and assigns, except that the Borrowers shall not have the right to assign any of their respective rights hereunder or any interest herein without the prior written consent of the Banks. Each Bank may assign to one or more banks, financial institutions or government entities all or any part of, or may grant participations to one or more banks, financial institutions or government entities in or to all or any part of, any Advance or Advances owing to such Bank, any Note or Notes held by such Bank and all or any portion of such Bank's Commitments, and to the extent of any such assignment or participation (unless otherwise stated therein) the assignee or purchaser of such assignment or participation shall, to the fullest extent permitted by law, have the same rights and benefits hereunder and under such Note or Notes as it would have if it were such Bank hereunder, provided that, except in the case of an assignment meeting the requirements of the next sentence hereof, (1) such Bank's obligations under this Agreement, including, without limitation, its Commitments to the Borrowers hereunder, shall remain unchanged, such Bank shall remain responsible for the performance thereof, such Bank shall remain the holder of any such Note or Notes for all purposes under this Agreement, and the Borrowers, the other Banks and the Agent shall continue to deal solely with and directly with such Bank in connection with such Bank's rights and obligations under this Agreement; and (2) no Bank shall assign or grant a participation that conveys to the assignee or participant the right to vote or consent under this Agreement, other than the right to vote upon or consent to (i) any increase in the amount of any Commitment of such Bank; (ii) any reduction of the principal amount of, or interest to be paid on, such Bank's Advance or Advances or Note or Notes; (iii) any reduction of any fee or other amount payable hereunder to such Bank; or (iv) any postponement of any date fixed for any payment of principal of, or interest on, such Bank's Advance or Advances or Note or Notes or any fee or other amount payable hereunder to such Bank.

If (I) the assignee of any Bank either (1) is another Bank or (2) is approved in writing by the Agent and the Borrowers or (3) is approved in writing by the Agent and either an Event of Default exists or the Borrowers have relinquished the right to approve the assignment pursuant to Section 8.06(b), and (II) such assignee assumes all or any portion (which portion shall be a constant, and not a varying, percentage, and the amount of the Commitment to TWC assigned, whether all or a portion, shall be in a minimum amount of $5,000,000 or such lesser amount as may be approved in writing by the Agent and TWC for such assignment) of each of the Commitments of such assigning Bank to the respective Borrowers (either all of each such Commitment shall be assigned or the percentage portion of each such Commitment assigned shall be the same as to each Borrower) by executing a document in the form of Exhibit F (or with such changes thereto as have been approved in writing by the Agent in its sole discretion as evidenced by its execution thereof) duly executed by the Agent, the Borrowers (unless an Event of Default exists or the Borrowers have relinquished the right to approve the assignment pursuant to Section 8.06(b)), such assigning Bank and such assignee and delivered to the Agent ("Transfer Agreement"), then upon such delivery, (i) such assigning Bank shall be released from its obligations under this Agreement with respect to all or such portion, as the case may be, of its Commitments, (ii) such assignee shall become obligated for all or such portion, as the case may be, of such Commitments and all other obligations of such assigning Bank hereunder with respect to or arising as a result of all or such portion, as the case may be, of such Commitments, (iii) such assignee shall be assigned the right to vote or consent under this Agreement, to the extent of all or such portion, as the case may be, of such Commitments, (iv) each Borrower shall deliver, in replacement of the A Note of such Borrower to such assigning Bank then outstanding (a) to such assignee, a new A Note of such Borrower in the amount of the Commitment of such assigning Bank to such Borrower which is being so assumed by such assignee plus, in the case of any assignee which is already a Bank hereunder, the amount of such assignee's Commitment to such Borrower immediately prior to such assignment (any such assignee which is already a Bank hereunder agrees to cancel and return to such Borrower, with reasonable promptness following the delivery of such new A Note, the A Note being replaced thereby), (b) to such assigning Bank, a new A Note in the amount of the balance, if any, of the Commitment of such assigning Bank to such Borrower (without giving effect to any B Reduction) retained by such assigning Bank (and such assigning Bank agrees to cancel and return to such Borrower, with reasonable promptness following delivery of such new A Notes, the A Note being replaced thereby), and (c) to the Agent, photocopies of such new A Notes, (v) if such assignment is of all of such assigning Bank's Commitments to the Borrowers, all of the outstanding A Advances made by such assigning Bank shall be transferred to such assignee, (vi) if such assignment is not of all of such Commitments, a part of each A Advance to each Borrower equal to the amount of such Advance multiplied by a fraction, the numerator of which is the amount of such portion of such assigning Bank's Commitment to such Borrower so assumed and the denominator of which is the amount of the Commitment of such assigning Bank to such Borrower (without giving effect to any B Reduction) immediately prior to such assumption, shall be transferred to such assignee and evidenced by such assignee's A Note from such Borrower, and the balance of such A Advance shall be evidenced by such assigning Bank's new A Note from such Borrower delivered pursuant to clause (iv)(b) of this sentence, (vii) if such assignee is not a "Bank" hereunder prior to such assignment, such assignee shall become a party to this Agreement as a Bank and shall be deemed to be a "Bank" hereunder, and the amount of all or such portion, as the case may be, of the Commitment to each of the respective Borrowers so assumed shall be deemed to be the amount for such Borrower set opposite such assigning Bank's name on Schedule IX for purposes of this Agreement, and (viii) if such assignee is not a Bank hereunder prior to such assignment, such assignee shall be deemed to have specified the offices of such assignee named in the respective Transfer Agreement as its "Domestic Lending Office" and "Eurodollar Lending Office" for all purposes of this Agreement and to have specified for purposes of Section 8.02 the notice information set forth in such Transfer Agreement; and the Agent shall promptly after execution of any Transfer Agreement by the Agent and the other parties thereto notify the Banks of the parties to such Transfer Agreement and the amounts of the assigning Bank's Commitments assumed thereby.

(b) If the Borrowers do not consent to a proposed assignment by a Bank pursuant to the last sentence of Section 8.06(a), TWC may, within 15 days of its receipt of a request that it consent to such assignment nominate by notice to the Agent and such Bank a bank which, if it is not a Bank, is acceptable to the Agent, and which unconditionally offers in writing (with a copy to the Agent) to purchase and assume, to the extent of the amount of such proposed assignment, in accordance with all of the provisions of the last sentence of Section 8.06(a) (including execution of an appropriate Transfer Agreement), all of such Bank's rights and obligations (including, without limitation, its Commitments) hereunder and interest in the Advances owing to such Bank and the Notes held by such Bank without recourse at par plus interest accrued thereon to the date of such purchase on a date therein specified (not less than three nor greater than five Business Days after such nomination). Such Bank at its option may elect to accept or not accept such purchase offer. If a Bank accepts such an offer and the bank first nominated by TWC pursuant to this Section 8.06(b) fails to purchase such rights and interest on such specified date in accordance with the terms of such offer, TWC may, within 15 days of such failure, repeat the process contemplated by the first sentence of this Section 8.06(b) by nominating another bank for purposes of this Section 8.06(b) by notice to the Agent and such Bank. If TWC does not so nominate such a bank within 15 days of its receipt of such request that it consent to such assignment or if TWC fails to nominate another bank following such a failure to purchase or if such second nominated bank fails to purchase in accordance with the terms of an offer complying with the first sentence of this Section 8.06(b), the Borrowers shall be deemed to have relinquished their right to consent to such assignment. If such Bank elects to not accept such a purchase offer under this Section 8.06(b) as to a particular proposed assignment, the Borrowers shall not be deemed to have relinquished their right to consent to such assignment.

(c) The Borrowers agree to promptly execute the Transfer Agreement pertaining to any assignment as to which approval by the Borrowers of the assignee is not required by clause (I) of the last sentence of Section 8.06(a).

(d) Any Bank may assign, as collateral or otherwise, any of its rights (including, without limitation, rights to payments of principal of and/or interest on the Notes) under this

Agreement or any of the Notes to any Federal Reserve Bank without notice to or consent of any Borrower or the Agent.

Section 8.07. Governing Law. This Agreement and the Notes shall be governed by, and construed in accordance with, the laws of the State of New York.

Section 8.08. Interest. It is the intention of the parties hereto that the Agent and each Bank shall conform strictly to usury laws applicable to it, if any. Accordingly, if the transactions with the Agent or any Bank contemplated hereby would be usurious under applicable law, then, in that event, notwithstanding anything to the contrary in the Notes, this Agreement or any other agreement entered into in connection with or as security for this Agreement or the Notes, it is agreed as follows: (i) the aggregate of all consideration which constitutes interest under applicable law that is contracted for, taken, reserved, charged or received by the Agent or such Bank, as the case may be, under the Notes, this Agreement or under any other agreement entered into in connection with or as security for this Agreement or the Notes shall under no circumstances exceed the maximum amount allowed by such applicable law and any excess shall be cancelled automatically and, if theretofore paid, shall at the option of the Agent or such Bank, as the case may be, be credited by the Agent or such Bank, as the case may be, on the principal amount of the obligations owed to the Agent or such Bank, as the case may be, by the appropriate Borrower or refunded by the Agent or such Bank, as the case may be, to the appropriate Borrower, and (ii) in the event that the maturity of any Note or other obligation payable to the Agent or such Bank, as the case may be, is accelerated or in the event of any required or permitted prepayment, then such consideration that constitutes interest under law applicable to the Agent or such Bank, as the case may be, may never include more than the maximum amount allowed by such applicable law and excess interest, if any, to the Agent or such Bank, as the case may be, provided for in this Agreement or otherwise shall be cancelled automatically as of the date of such acceleration or prepayment and, if theretofore paid, shall, at the option of the Agent or such Bank, as the case may be, be credited by the Agent or such Bank, as the case may be, on the principal amount of the obligations owed to the Agent or such Bank, as the case may be, by the appropriate Borrower or refunded by the Agent or such Bank, as the case may be, to the appropriate Borrower.

Section 8.09. Execution in Counterparts. This 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.

Section 8.10. Survival of Agreements, Representations and Warranties, Etc. All warranties, representations and covenants made by any Borrower or any officer of any Borrower herein or in any certificate or other document delivered in connection with this Agreement shall be considered to have been relied upon by the Banks and shall survive the issuance and delivery of the Notes and the making of the Advances regardless of any investigation. The indemnities and other payment obligations of each Borrower contained in this Agreement, and the indemnities by the Banks in favor of the Agent and its officers, directors, employees and agents, will survive the repayment of the Advances and the termination of this Agreement.

Section 8.11. Borrowers' Right to Apply Deposits. In the event that any Bank is placed in receivership or enters a similar proceeding, each Borrower may, to the full extent permitted by law, make any payment due to such Bank hereunder, to the extent of finally collected unrestricted deposits of such Borrower in U.S. dollars held by such Bank, by giving notice to the Agent and such Bank directing such Bank to apply such deposits to such indebtedness. If the amount of such deposits is insufficient to pay such indebtedness then due and owing in full, such Borrower shall pay the balance of such insufficiency in accordance with this Agreement.

Section 8.12. Confidentiality. Each Bank agrees that it will use best efforts, to the extent not inconsistent with practical business requirements, not to disclose without the prior consent of TWC (other than to employees, auditors, accountants, counsel or other professional advisors of the Agent or any Bank) any information with respect to the Borrowers or their Subsidiaries which is furnished pursuant to this Agreement and which (i) the Borrowers in good faith consider to be confidential and (ii) is either clearly marked confidential or is designated by the Borrowers to the Agent or the Banks in writing as confidential, provided that any Bank may disclose any such information (a) as has become generally available to the public, (b) as may be required or appropriate in any report, statement or testimony submitted to or required by any municipal, state or Federal regulatory body having or claiming to have jurisdiction over such Bank or submitted to or required by the Board of Governors of the Federal Reserve System or the Federal Deposit Insurance Corporation or similar organizations (whether in the United States or elsewhere) or their successors, (c) as may be required or appropriate in response to any summons or subpoena in connection with any litigation, (d) in order to comply with any law, order, regulation or ruling applicable to such Bank, (e) to the prospective transferee in connection with any contemplated transfer of any of the Notes or any interest therein by such Bank, provided that such prospective transferee executes an agreement with or for the benefit of the Borrowers containing provisions substantially identical to those contained in this Section 8.12, and provided further that if the contemplated transfer is a grant of a participation in a Note (and not an assignment), no such information shall be authorized to be delivered to such participant pursuant to this clause (e) except (i) such information delivered pursuant to Section 4.01(e) or Section 5.01(b) (other than paragraph (iv) thereof), and (ii) if prior notice of the delivery thereof is given to TWC, such information as may be required by law or regulation to be delivered, (f) in connection with the exercise of any remedy by such Bank pertaining to this Agreement, any of the Notes or any other document delivered in connection herewith, (g) in connection with any litigation involving such Bank pertaining to this Agreement, any of the Notes or any other document delivered in connection herewith, (h) to any Bank or the Agent, or (i) to any affiliate of any Bank, provided that such affiliate executes an agreement with or for the benefit of the Borrowers containing provisions substantially identical to those contained in this Section 8.12.

Section 8.13. WAIVER OF JURY TRIAL. THE BORROWERS, THE AGENT, AND THE BANKS HEREBY IRREVOCABLY WAIVE ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY NOTE OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 8.14. Miscellaneous. This Agreement shall become effective in accordance with the first sentence of Section 8.06(a). Subject to compliance with such sentence, the amendments to the 1996 Credit Agreement effected by this Agreement (including, without limitation, the amendments to the definition of "Applicable Margin") shall for all purposes be effective as of July 23, 1997. On July 23, 1997, each Borrower will pay in full all principal, interest and fees owed by it outstanding under the 1996 Credit Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

BORROWERS:

THE WILLIAMS COMPANIES, INC.

By: ----------------------------
Name: --------------------------
Title: -------------------------

TEXAS GAS TRANSMISSION CORPORATION

By: ------------------------
Name: ----------------------
Title: ---------------------

TRANSCONTINENTAL GAS PIPE LINE CORPORATION

By: ----------------------------
Name: --------------------------
Title: -------------------------

WILLIAMS PIPE LINE COMPANY

By: ------------------------
Name: ----------------------
Title: ---------------------

WILLIAMS HOLDINGS OF DELAWARE, INC.

By: ----------------------------
Name: --------------------------
Title: -------------------------

WILTEL COMMUNICATIONS, LLC

By: ------------------------
Name: ----------------------
Title: ---------------------

NORTHWEST PIPELINE CORPORATION

By: ----------------------------
Name: --------------------------
Title: -------------------------

AGENT:

CITIBANK, N.A., as Agent

By: -------------------------
J Christopher Lyons
Vice President

BANKS:

CITIBANK, N.A.

By: -------------------------
J. Christopher Lyons
Vice President

BANK OF AMERICA NATIONAL TRUST
AND SAVINGS ASSOCIATION

By: -------------------------
Authorized Officer

THE CHASE MANHATTAN BANK

By: -------------------------
Authorized Officer

CIBC INC.

By: -------------------------
Authorized Officer

CREDIT LYONNAIS NEW YORK BRANCH

By:

Authorized Officer

THE FIRST NATIONAL BANK OF
CHICAGO

By:

Authorized Officer

BANK OF MONTREAL

By:

Authorized Officer

THE BANK OF NEW YORK

By:

Authorized Officer

THE BANK OF NOVA SCOTIA

By:

Authorized Officer

BARCLAYS BANK PLC

By:

Authorized Officer

BOATMEN'S NATIONAL BANK
OF OKLAHOMA

By:

Authorized Officer

THE FIRST NATIONAL BANK OF
BOSTON

By:

Authorized Officer

THE FUJI BANK, LIMITED,
HOUSTON AGENCY

By:

Authorized Officer

MELLON BANK, N.A.

By:

Authorized Officer

MORGAN GUARANTY TRUST COMPANY
OF NEW YORK

By:

Authorized Officer

ROYAL BANK OF CANADA

By:

Authorized Officer

SOCIETE GENERALE,
SOUTHWEST AGENCY

By:

Authorized Officer

WELLS FARGO BANK, N.A.

By:

Authorized Officer

BANK OF OKLAHOMA, N.A.

By:

Authorized Officer

COMMERCE BANK, N.A.

By:

Authorized Officer

Exhibit 11

THE WILLIAMS COMPANIES, INC.
COMPUTATION OF EARNINGS PER COMMON SHARE

	Years ended December 31, 1997	1996	1995
	(Thousands, except per-share amounts)		
Basic earnings:			
Income from continuing operations	$ 350,500	$ 362,300	$ 299,400
Preferred stock dividends:			
$2.21 cumulative preferred stock	1,100	1,600	6,000
$3.50 cumulative convertible preferred stock	8,700	8,800	5,800
Effect of preferred stock exchange	--	--	3,500
Income from continuing operations, net of preferred stock dividends	340,700	351,900	284,100
Income from discontinued operations	--	--	1,018,800
Income before extraordinary loss, net of preferred stock dividends	340,700	351,900	1,302,900
Extraordinary loss	(79,100)	--	--
Income applicable to common stock	$ 261,600	$ 351,900	$1,302,900
Basic shares:			
Average number of common shares outstanding during the period	317,683	314,158	296,139
Common shares attributable to deferred stock	3,501	4,890	6,668
Total common shares	321,184	319,048	302,807
Basic earnings per common share:			
Income from continuing operations	$ 1.06	$ 1.10	$ .94
Income from discontinued operations	--	--	3.36
Income before extraordinary loss	1.06	1.10	4.30
Extraordinary loss	(.25)	--	--
Net income	$ .81	$ 1.10	$ 4.30
Diluted earnings:			
Income from continuing operations	$ 350,500	$ 362,300	$ 299,400
Preferred stock dividends:			
$2.21 cumulative preferred stock	1,100	1,600	6,000
Effect of preferred stock exchange	--	--	3,500
Income from continuing operations, net of preferred stock dividends	349,400	360,700	289,900
Income from discontinued operations	--	--	1,018,800
Income before extraordinary loss, net of preferred stock dividends	349,400	360,700	1,308,700
Extraordinary loss	(79,100)	--	--
Income applicable to common stock	$ 270,300	$ 360,700	$1,308,700
Diluted shares:			
Average number of common shares outstanding during the period	317,683	314,158	296,139
Common shares attributable to options and deferred stock	8,139	10,122	10,038
Dilutive preferred shares	11,717	11,718	7,866
Total common shares	337,539	335,998	314,043
Diluted earnings per common share:			
Income from continuing operations	$ 1.04	$ 1.07	$ .92
Income from discontinued operations	--	--	3.25
Income before extraordinary loss	1.04	1.07	4.17
Extraordinary loss	(.24)	--	--
Net income	$ .80	$ 1.07	$ 4.17

Note: Share and per-share amounts have been restated to reflect the effect of
the December 29, 1997, two-for-one common stock split and distribution.

EXHIBIT 12

THE WILLIAMS COMPANIES, INC. AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES
AND PREFERRED STOCK DIVIDEND REQUIREMENTS
(Dollars in millions)

	Years Ended December 31,				
	1997	1996	1995	1994	1993
Earnings:					
Income from continuing operations before income taxes	$ 528.5	$ 545.4	$ 401.4	$ 246.6	$ 298.0
Add:					
Interest expense--net	388.6	353.0	263.4	139.8	140.8
Rental expense representative of interest factor	34.2	27.7	26.9	9.2	8.1
Preferred dividends of subsidiaries	--	--	3.7	--	--
Interest accrued--50% owned company	--	1.3	30.7	31.7	31.3
Minority interest in income of consolidated subsidiaries	14.0	--	10.0	--	--
Other	.8	4.2	5.5	2.0	4.1
Total earnings as adjusted plus fixed charges	$ 966.1	$ 931.6	$ 741.6	$ 429.3	$ 482.3
Combined fixed charges and preferred stock dividend requirements:					
Interest expense--net	$ 388.6	$ 353.0	$ 263.4	$ 139.8	$ 140.8
Capitalized interest	15.9	6.9	14.5	6.0	10.4
Rental expense representative of interest factor	34.2	27.7	26.9	9.2	8.1
Pretax effect of dividends on preferred stock of the Company	16.1	16.2	18.0	13.1	19.1
Pretax effect of dividends on preferred stock of subsidiaries	--	--	5.8	--	--
Interest accrued--50% owned company	--	1.3	30.7	31.7	31.3
Combined fixed charges and preferred stock dividend requirements	$ 454.8	$ 405.1	$ 359.3	$ 199.8	$ 209.7
Ratio of earnings to combined fixed charges and preferred stock dividend requirements	2.12	2.30	2.06	2.15	2.30

EXHIBIT 21

THE WILLIAMS COMPANIES, INC. & AFFILIATES

March 19, 1998

	Jurisdiction of Incorporation	Owned by Immediate Parent
THE WILLIAMS COMPANIES, INC.	Delaware	
WILLIAMS HOLDINGS OF DELAWARE, INC.	Delaware	100%
Beech Grove Processing Company	Tennessee	100%
Tennessee Processing Company	Delaware	100%
Inland Ports, Inc.	Tennessee	100%
Langside Limited	Bermuda	100%
Realco Realty Corp.	Delaware	100%
Realco of Crown Center, Inc.	Delaware	100%
Realco of San Antonio, Inc.	Delaware	100%
The Tennessee Coal Company	Delaware	100%
Williams Communications Group, Inc.	Delaware	100%
Critical Connections, Inc.	Delaware	100%
The Business Channel LLC		50%
Williams Communications, Inc.	Delaware	100%
ChoiceSeat, Inc.	Delaware	100%
Vyvx of Virginia, Inc.	Virginia	100%
WCS Communications Systems, Inc.	Delaware	100%
WCS Microwave Services, Inc.	Nevada	100%
Williams Learning Network, Inc.	Delaware	100%
Williams Wireless, Inc.	Delaware	100%
Williams Communications Solutions, LLC	Delaware	70%
WCS, Inc.	Delaware	100%
WilTel Communications (Canada), Inc.	Canada	100%
WilTel Holdings, Inc.	Canada	100%
Transco Energy Company	Delaware	100%
Energy Tech, Inc.	Delaware	100%
Transco Coal Gas Company	Delaware	100%
Transco Energy Investment Company	Delaware	100%
Transco Exploration Company	Delaware	100%
Transco Gas Company	Delaware	100%
Border Gas, Inc.	Delaware	10%
Liberty Operating Company	Delaware	100%
NESP Supply Corp.	Delaware	33.33%
Transco Liberty Pipeline Company	Delaware	100%
Transeastern Gas Pipeline Company, Inc.	Delaware	100%
Transco P-S Company	Delaware	100%
Transco Resources, Inc.	Delaware	100%
Magnolia Methane Corp.	Delaware	100%
Transco Terminal Company	Delaware	100%
Transco Tower Realty, Inc.	Delaware	100%
Tulsa Williams Company	Delaware	100%
Valley View Coal, Inc.	Tennessee	100%
WHD Enterprises, Inc.	Delaware	100%
Williams Acquisition Holding Company, Inc.	Delaware	100%
Williams Acquisition Holding Company, Inc.	New Jersey	100%
Agrico Foreign Sales Corporation	Guam	100%
Fishhawk Ranch, Inc.	Florida	100%
Reserveco Inc.	Delaware	15%
Williams Aircraft, Inc.	Delaware	100%
Williams Energy Company	Delaware	100%

	Jurisdiction of Incorporation	Owned by Immediate Parent
Williams Energy Group	Delaware	100%
Longhorn Enterprises of Texas, Inc.	Delaware	100%
Williams Energy Group Services, Inc.	Delaware	100%
Williams Energy Ventures, Inc.	Delaware	100%
Nebraska Energy, L.L.C.	Kansas	71%
Wiljet, LLC	Arizona	50%
Williams Ethanol Production Company	Delaware	100%
Pekin Energy Company	Illinois (General Partnership)	99%
Williams Ethanol Services, Inc.	Delaware	100%
Pekin Energy Company	Illinois (General Partnership)	1%
Williams Field Services Group, Inc.	Delaware	100%
Carbon County UCG, Inc.	Delaware	100%
Trans-Jeff Chemical Corporation	Delaware	100%
WFS Enterprises, Inc.	Delaware	100%
Williams Field Services - Gulf Coast Company, L.P.	Delaware	99%
WFS Fractionation Company	Delaware	100%
WFS - Gas Gathering Company	Delaware	100%
WFS - Offshore Gathering Company	Delaware	100%
WFS - Pipeline Company	Delaware	100%
WFS - Liquids Company	Delaware	100%
HI-BOL Pipeline Company	Delaware	100%
WFS Management Co.	Delaware	100%
WFS - NGL Pipeline Company, Inc.	Delaware	100%
WILPRISE Pipeline Company, L.L.C.	Delaware	50%
WFS - OCS Gathering Co.	Delaware	100%
Energy International Corporation	Pennsylvania	100%
WFS - Production Services Company	Delaware	100%
Williams CNG Company	Delaware	100%
Williams Field Services Company	Utah	100%
Williams Field Services - Gulf Coast Company, L.P.	Delaware	1%
Williams Gas Processing - Gulf Coast Company, L.P.	Delaware	1%
Williams Gas Processing - Blanco, Inc.	Delaware	100%
Williams Gas Processing Company	Delaware	100%
Williams Gas Processing - Kansas Hugoton Company .	Delaware	100%
Williams Gas Processing - Mid-Continent Region Company	Delaware	100%
Williams Gas Processing - Wamsutter Company	Delaware	100%
Williams Power Company	Delaware	100%

	Jurisdiction of Incorporation	Owned by Immediate Parent
Williams Merchant Services Company, Inc.	Delaware	100%
Williams Energy Services Company	Delaware	100%
Energy Vision, LLC	Delaware	50%
F T & T, Inc.	Delaware	100%
Hazleton Fuel Management Company	Delaware	100%
Hazleton Pipeline Company	Delaware	100%
TM Cogeneration Company	Delaware	100%
Millennium Energy Fund, L.L.C.	Delaware	2%
Rio Vista Energy Marketing Company L.L.C. . . .	Delaware	50%
Transco Energy Marketing Company	Delaware	100%
TXG Gas Marketing Company	Delaware	100%
Williams Gas Company	Delaware	100%
TransNetwork Holding Company	Delaware	100%
Williams Energy Network, Inc.	Delaware	100%
Utility Management Corporation	Delaware	100%
Volunteer Energy Corporation	Delaware	50%
Williams Independence Marketing Company	Delaware	100%
Williams Pipe Line Company	Delaware	100%
WillBros Terminal Company	Delaware	100%
Williams Pipe Line Company of Wisconsin	Wisconsin	100%
Williams Terminals Company	Delaware	100%
Williams Production Company	Delaware	100%
WFS Gas Resources Company	Delaware	100%
Williams Generation Company - Hazleton	Delaware	100%
Williams Production Gulf Coast Company, L.P.	Delaware	1%
WPX Enterprises, Inc.	Delaware	100%
Williams Production Gulf Coast Company, L.P.	Delaware	99%
Williams Environmental Services Company	Delaware	100%
Williams Exploration Company	Delaware	100%
Rainbow Resources, Inc.	Colorado	100%
Williams Headquarters Acquisition Company	Delaware	100%
Williams Headquarters Building Company	Delaware	100%
Parkco, L.L.C.	Oklahoma	50%
Williams Headquarters Management Company	Delaware	100%
Williams Hugoton Compression Services, Inc.	Delaware	100%
Williams Information Services Corporation	Delaware	100%

	Jurisdiction of Incorporation	Owned by Immediate Parent
Williams International Company	Delaware	100%
Apco Argentina Inc.	Cayman Islands	68.95%
Apco Properties Ltd.	Cayman Islands	100%
Williams International Australian Telecom Limited	Cayman Islands	100%
Williams International (Bermuda) Limited	Bermuda	100%
Williams International Boyaca-Santander Services Limited	Cayman Islands	100%
Williams International Cusiana-Cupiagua Limited	Cayman Islands	100%
Williams International Ecuadorian Ventures (Bermuda) Limited	Bermuda	100%
Williams International El Furrial Limited	Cayman Islands	100%
WilPro Energy Services (El Furrial) Limited	Cayman Islands	66.67%
Williams International Guara Limited	Cayman Islands	100%
WilPro Energy Services (Guara) Limited	Cayman Islands	100%
Williams International Investment Ventures (Cayman) Limited	Cayman Islands	100%
Williams International Investments (Cayman) Limited	Cayman Islands	100%
Williams International Oil & Gas (Venezuela) Limited	Cayman Islands	100%
Williams International Operations (Venezuela) Limited	Cayman Islands	100%
Williams International Services Company	Nevada	100%
Worldwide Services Limited	Cayman Islands	100%
Williams International Telecom Limited	Cayman Islands	100%
Williams International Ventures (Bermuda) Ltd.	Bermuda	100%
Free Port Terminal Company Limited	Bermuda (Ltd. Partnership)	65%
FPT Marketing Company Limited	Bermuda	100%
Transportadora de Gas Zapata	Mexico	37%
Williams International Pipeline Company	Delaware	100%
Williams International Telecommunications Investments (Cayman) Limited	Cayman Islands	100%
Williams International Ventures Company	Delaware	100%
Williams International Indonesia Ventures Company	Delaware	100%
Wiltel Communications Pty Limited	Australia	100%
Williams Learning Network (UK) Limited	England	100%
Williams Learning Center, Inc.	Delaware	100%
Williams One-Call Services, Inc.	Delaware	100%
Williams Pipeline Services Company	Delaware	100%
Williams Relocation Management, Inc.	Delaware	100%
Williams Sodium Products Company	Delaware	100%
American Soda, L.L.P.	Colorado	60%
Williams Underground Gas Storage Company	Delaware	100%
Kiowa Gas Storage, L.L.C.	Delaware	50%
Williams Western Holding Company, Inc.	Delaware	100%
Northwest Alaskan Pipeline Company	Delaware	100%
Northwest Argentina Corporation	Utah	100%
Northwest Border Pipeline Company	Delaware	100%
Northern Border Partners, L.P.	Delaware (Limited Partnership)	4.375%
Northern Border Intermediate Limited Partnership	Delaware (Limited Partnership)	0.175%
Northwest Land Company	Delaware	100%
WilMart, Inc.	Delaware	100%

	Jurisdiction of Incorporation	Owned by Immediate Parent
WILLIAMS INTERSTATE NATURAL GAS SYSTEMS, INC.	Delaware	100%
Kern River Acquisition Corporation	Delaware	100%
Kern River Gas Transmission Company	Texas (Partnership)	50%
Kern River Funding Corporation	Delaware	100%
Northwest Pipeline Corporation	Delaware	100%
Apco Liquidating Trust	Delaware	35.33%
NWP Enterprises, Inc.	Delaware	100%
Texas Gas Transmission Corporation	Delaware	100%
TGT Enterprises, Inc.	Delaware	100%
Transcontinental Gas Pipe Line Corporation	Delaware	100%
Cardinal Operating Company	Delaware	100%
Cumberland Operating Company	Delaware	100%
Independence Operating Company	Delaware	100%
Marsh Resources, Inc.	Delaware	100%
Pine Needle Operating Company	Delaware	100%
TGPL Enterprises, Inc.	Delaware	100%
TransCardinal Company	Delaware	100%
TransCarolina LNG Company.	Delaware	100%
TransCumberland Pipeline Company	Delaware	100%
Transco Independence Pipeline Company	Delaware	100%
WGP Enterprises, Inc.	Delaware	100%
Williams Gas Processing - Gulf Coast Company, L.P.	Delaware	99%
Williams Gas Pipelines Central, Inc.	Delaware	100%
Williams Storage Company	Delaware	100%
Williams Western Pipeline Company	Delaware	100%
Kern River Gas Transmission Company	Texas (Partnership)	50%

EXHIBIT 23

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-4 and on Form S-8 of The Williams Companies, Inc. of our report dated February 13, 1998, with respect to the consolidated financial statements and schedule of The Williams Companies, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 1997.

Form S-3: Registration No. 333-20929
Registration No. 333-29185

Form S-4: Registration No. 333-44963

Form S-8: Registration No. 33-2442; Registration No. 33-24322;
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. 33-51545; Registration No. 33-56521
Registration No. 333-03957;Registration No. 333-11151
Registration No. 333-40721;Registration No. 333-33735
Registration No. 333-30095

ERNST & YOUNG LLP

Tulsa, Oklahoma
March 26, 1998

EXHBIIT 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, DAVID M. HIGBEE and SHAWNA L. BARNARD 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, 1997, 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, DAVID M. HIGBEE and SHAWNA L. BARNARD 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 25th day of January, 1998.

/s/ KEITH E. BAILEY
- - -----------------------------
Keith E. Bailey
Chairman of the Board,
President and
Chief Executive Officer
(Principal Executive Officer)

/s/ JACK D. MCCARTHY

Jack D. McCarthy
Senior Vice President
(Principal Financial Officer)

/s/ GARY R. BELITZ

Gary R. Belitz
Controller
(Principal Accounting Officer)

/s/ GLENN A. COX	/s/ THOMAS H. CRUIKSHANK
Glenn A. Cox Director	Thomas H. Cruikshank Director
/s/ WILLIAM E. GREEN	/s/ PATRICIA L. HIGGINS
William E. Green Director	Patricia L. Higgins Director
/s/ W.R. HOWELL	/s/ ROBERT J. LAFORTUNE
W.R. Howell Director	Robert J. LaFortune Director
/s/ JAMES C. LEWIS	/s/ JACK A. MACALLISTER
James C. Lewis Director	Jack A. MacAllister Director
/s/ PETER C. MEINIG	/s/ KAY A. ORR
Peter C. Meinig Director	Kay A. Orr Director
/s/ GORDON R. PARKER	/s/ JOSEPH H. WILLIAMS
Gordon R. Parker Director	Joseph H. Williams Director

THE WILLIAMS COMPANIES, INC.

By /s/ WILLIAM G. VON GLAHN

William G. von Glahn
Senior Vice President

ATTEST:

/s/ DAVID M. HIGBEE

David M. Higbee
Secretary

I, the undersigned, SHAWNA L. GEHRES, Assistant Secretary of THE WILLIAMS COMPANIES, INC., a Delaware company (hereinafter called the "Company"), do hereby certify that at a meeting of the Board of Directors of the Company, duly convened and held on January 25, 1998, at which a quorum of said Board was present and acting throughout, the following resolution was duly adopted:

> 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, 1997.

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 27th day of March, 1998.

/s/ SHAWNA L. GEHRES

Shawna L. Gehres
Assistant Secretary

(CORPORATE SEAL)

5
0000107263
THE WILLIAMS COMPANIES, INC.
1,000

12-MOS
DEC-31-1997
JAN-01-1997
DEC-31-1997
81,254
0
1,350,891
(19,983)
300,547
2,255,856
12,284,394
(2,228,820)
13,878,974
3,027,395
4,565,320
0
142,212
325,066
3,104,396
13,878,974
0
4,409,572
0
3,482,998
0
(8,799)
404,519
528,485
177,973
350,512
0
(79,134)
0
271,378
.81
.80

A 2-for-1 common stock split and distribution occurred effective December 29, 1997. Prior financial data schedules have been restated for this recapitalization.

5

1,000

12-MOS
DEC-31-1996
JAN-01-1996
DEC-31-1996
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0
1,080,392
(9,743)
204,591
1,890,102
11,212,254
(1,825,966)
12,418,772
2,199,298
4,376,914
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161,039
320,426
2,939,509
12,418,772
0
3,531,212
0
2,629,762
0
(4,066)
359,947
545,406
183,067
362,339
0
0
0
362,339
1.10
1.07

THESE AMOUNTS HAVE BEEN RESTATED FOR THE ADOPTION OF FAS 128, "EARNINGS PER SHARE," AND A TWO-FOR-ONE COMMON STOCK SPLIT AND DISTRIBUTION EFFECTIVE DECEMBER 29, 1997.

5

1,000

12-MOS
DEC-31-1995
JAN-01-1995
DEC-31-1995
90,383
0
688,595
(11,338)
189,038
1,377,655
9,478,732
(1,463,987)
10,561,201
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2,874,042
0
173,486
158,006
2,855,606
10,561,201
0
2,855,674
0
2,184,962
0
3,767
277,924
401,360
101,988
299,372
1,018,805
0
0
1,318,177
4.30
4.17

THESE AMOUNTS HAVE BEEN RESTATED FOR THE ADOPTION OF FAS 128, "EARNINGS PER SHARE," AND ALL COMMON STOCK SPLITS SUBSEQUENT TO DECEMBER 31, 1995. PRIOR FINANCIAL DATA SCHEDULES HAVE NOT BEEN RESTATED FOR THIS RECAPITALIZATION.